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INFORMATION REPORT INFORMATION REPORT

CENTRAL INTELLIGENCE AGENCY

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C-O-N-F-I-D-E-N-T-I-A-L

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THIS IS UNEVALUATED INFORMATION

SOURCE: D-O-C-U-M-E-N-T-A-R-Y

1. On file [redacted], classified CONFIDENTIAL, is a copy of the trip report prepared by William Benton during his recent trip through Latin America with Adlai Stevenson. (b)(1) (b)(3)

2. Running to several hundred double-spaced pages, the report consists of notes and transcriptions of material dictated to a recording machine during the trip. There are memoranda of conversations, accounts of briefings in US Embassies and elsewhere, assessments of important individuals met, and observations and impressions by a traveler who is obviously a far-above-average observer.

3. The countries visited were Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

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STATE		ARMY		NAVY		AIR		FBI		AEC					

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ARGENTINA

Cat. #1672 A
Memo #40 A

3/3/60

NOTES ON LATIN AMERICAN UNIVERSITIES, FROM COMMENTS BY GROUP RETURNING FROM SANTIAGO UNIVERSITY CONFERENCE

With us today in Micchu Picchu have been Mr. James Perkins, vice president of the Carnegie Corporation, President Murphy of the University of Kansas, and Dr. Burkhart (?), President of the Council of Learned Society. They are on the way back from a conference of South American university rectors, together with ten American counterparts, in Santiago, Chile. Dr. Burkhart says that the students' problems are complicated, which would be most natural. In some countries and some universities, these rights for the students have been most important and most constructively used by the students. In some cases, the students have become almost the sole liberal voices in the countries. Further, the faculties of these universities are part-time people, many of whom are incompetent, many of whom are politically appointed, many of whom don't even attend their classes, many of whom hire assistants to teach their courses -- and the students in some cases have been a factor in attempting to raise standards, rather than to lower them. Mr. Perkins told us that the average faculty member at a South American university who serves part-time, gets paid $1,200 a year. (Later, we were told $40 a month with the professors primarily interested in the appointments because they helped give them prestige in private jobs and legal practice.) In some universities there has been a strong trend toward full-time professors -- and these are paid as little as $150 and $200 a month but in exceptional cases as much as $4,000 a year. For instance at the University of the Argentine, I think it was, the number of full-time professors has gone up from 5 or 6 to more than 100 in recent years. (I later

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confirmed this with Rector Frondizi.) The medical staff at the university in Sao Paulo in Brazil is a full-time medical faculty, according to Mr. Perkins, and this interested me because I have understood that the University of Chicago medical faculty is the only full-time medical faculty in the world. (I'd like to have this point checked by John Howe, on Sao Paulo.)

This Carnegie Corporation conference had an agenda of a full week. All the tough problems were discussed, says Perkins: the part-time faculty, the usurpation of dictatorial rights by students, the low standards of instruction, etc. Dr. Burkhart said that the big result of the conference was "getting acquainted". He and Mr. Perkins spoke with enthusiasm of many of the Latin American intellectual leaders. President Murphy thinks this meeting will open up a new era of interest in Latin American universities by our big foundations. He prophesies that major financial assistance will be forthcoming.

Seemingly Ken Holland's organization should be complimented on a signal success. They are preparing all the records and reports. Will Mr. Howe please get a full set? I think there is very valuable material here for my article.

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ARGENTINA

Cat. #1692
Memo #58

3/16/60

CALL UPON MINISTER OF THE INTERIOR

ALFRED VITALO - AT HIS OFFICE

GOVERNOR STEVENSON AND SENATOR BENTON

The Minister of the Interior is responsible for the State Police. The Governor asked about the bombings. The Minister more or less shrugged these off. He said they would cease after election on March 27. He said they are the effort of the communists to cause trouble, but that the public is not reacting. He attributes them to a tiny group. He says this is the end of a period, the transition to a new one - "the great majority want peace and nothing will pacify the country as much as prosperity". I asked him where the bombs were coming from. He said some were imported and others were homemade. He spoke of "little books telling people how to make bombs"!

The Governor asked whether the Peron leaders were under arrest. The Minister said they were not but that the government knows "perfectly" who they are. The Governor asked about the role of the army (some news stories have reported that the army has taken over control of the internal police - in its campaign to eliminate terrorism). The Minister said the army was "cooperating" with the police.

Minister Vitalo explained that the Peronist leaders do not expect Peron to come back; that Peron does not want to come back; that he has become a symbol "as in Germany and Italy".

In response to a question from Governor Stevenson, he said that the economy is not expanding fast enough to satisfy the Argentinian people. He spoke of the fact that the government had had to yield to the workers when threatened with a railroad strike. But he

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reminded us that the elections were in a week - and after the elections, the government can be more firm. He said that the problem was well understood by the political leaders but that "most people don't understand it".

The most interesting part of the meeting followed Governor Stevenson's question about problems of United States policy in dealing with Latin America. The Minister told us that in his judgment the United States problem "is to regain the confidence of Latin America". He told us that the "climate" was more important than the financial aid. He emphasized that "human development" is of highest importance. He said that trips and visits such as Governor Stevenson's "are vital". He told the Governor that his visit to Latin America will have "tremendous repercussions". He emphasized that Governor Stevenson's and my trip "seems disinterested". It dramatizes the "human element". Again, he said, "This is more important than the aid". The Governor commented that he felt this was a most important observation.

The Minister remarked on the fact that Europe "psychologically ignores Latin America" and this leads to advocacy in some quarters of a so-called "third position". Those who advocate this position want Latin America to sit on the sidelines as observers, without actively participating in world affairs.

The Minister told us that no foreign minister has visited Latin America who could be called "disinterested". Until recently, he added, the same thing could be said about the United States. This does not accord to Latin America the consideration it is after. Latin

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America "wants to be an integral part, a member of the family". The Minister told us that the United States often acted "too much alone and not enough as one of the group" of American republics. He took the position that if the United States wants to speak for Latin America, it should consult the other American republics. He said that the Rio Pact to the average Latin American "was organized by the United States to help the United States". He said the United States should seek ways to demonstrate that the "OAS is for all". The Governor asked him how he'd feel about locating the OAS in Panama. The reply, "Bueno".

The Minister went on to speak of the Antarctic Conference, a recent conference of 12 states which approved the Argentine proposal that atomic tests should be banned in the Antarctic. He said the United States did not support the position of the Argentine, but the Argentine won out anyway. He said he could give many small illustrations. All of them point up the fact that Argentina wants the United States to be more a friend - she wants to feel sure that the United States will indeed defend the interests of Latin America throughout the world. She doesn't like the feeling that the United States expects to utilize the OAS to foster U.S. policy. She objects to being made to feel that the Argentine is merely an adjunct to the United States.

(Later I met the Ambassador who represented the Argentine at the Antarctic Conference. He said the Minister is mistaken. He said he understood the position of the U.S. with its complex world wide negotiations and commitments -

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and that final agreement would have been impossible without the cooperation of the U.S.)

The Minister stated that the "balance now favors the East" - in the present world competition. He says that only Latin America and Africa can swing this balance towards the West. He spoke of the fact that the population of Latin America is equal to that of Canada and the United States put together. He asked, "May not the world drama be played out - here in Latin America - 25 years hence?" In response to this rhetorical question, Governor Stevenson said, "That's why I'm here!"

The Minister reminded us that President Roosevelt "in a spurt" won the psychological and spiritual confidence of the Latin American people. He said, "When he came here, he was hailed as a world leader". He urged us "to study the economic issues from a psychological and sociological point of view". He suggested there was too much emphasis on the dealings between governments - government to government - and commented that now is the time for much closer relationships among North and South American universities, labor unions, "impressarios". I told him we were visiting the University of Buenos Aires that very afternoon and quoted Mr. Pinedo's comments to him on the disintegration of the universities during the Peron regime. He answered briefly, "The universities suffered as did the rest of the country; they are now being rebuilt."

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Cat. #1694
Memo #60

3/22/60

MEMORANDUM ON A VISIT WITH DR. FREDERICO PENEDO, MINISTER OF FINANCE IN THE ARGENTINE IN 1933 - FOR AN UNKNOWN PERIOD - AND AGAIN IN THE EARLY YEARS OF THE WAR. (HE SPOKE VERY WARMLY OF NORMAN ARMOUR, WHO WAS THEN OUR AMBASSADOR)

Premier Beltran of Peru urged us to visit with Dr. Penedo. He told us how Dr. Penedo had floated the kind of short term government bonds for the Argentine, during his period as Finance Minister - as a matter of course - the kind Premier Beltran now contemplates for Peru. Dr. Penedo today spoke of the government bonds he put on the market in 1933, which I gather were long term bonds, at 4% interest - "in contrast to interest rates today of 4% per month". Mr. Prebisch also urged us to visit with Dr. Penedo.

Dr. Penedo bewailed the present state of Government finances. He deeply regrets the controls which have dominated the economy. He says that even today the controls are much greater than one would gather in a visit such as ours yesterday with Mr. Alsogaray. Over our tea, we took tea cups as an example. If he and I want to go in the tea cup business, we can go ahead and build a factory and there is nothing to stop us - but we may have to pay 40% interest on our money in contrast to somebody who has an inside track at the bank who may pay only 8%. More importantly, we shall have to pay 300% import duty on our machinery. If we had successfully gone to the Government Bureau, and received their okay on building a tea cup factory, we might import our machinery for nothing. But the Government Bureau might refuse to give us such permission, stating that there were already two tea cup factories, or four tea cup factories,

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and asking us why we didn't instead go into the book business, about which we might know nothing. With vivid gestures and much laughter, Dr. Penedo spun out his story of the evils of a controlled economy.

But he feels progress is being made and he is hopeful. He thinks Alsogaray is on the right track. He feels his friend, Prebisch, is not. He applauds Prebisch's efforts to pull a common market together, bringing down tariffs among the various countries, but he bewails the fact that Prebisch wants to raise an even higher wall around his common market - to give greater protection to its industry and its economy. He thinks the tariff walls should come down both within and without. Further, he greatly fears Prebisch's tendency to plan everything for 20 years ahead. He says that Prebisch overplays the role of the state. Prebisch's plans will tell you in advance how many tea cup factories and how many tea cups are wanted for 1988! (Ambassador Beaulac makes exactly the same point about Prebisch - he says that Prebisch is for "statism"; he says that Prebisch wrote a plan for the Argentine government and that everything that is now happening in the Argentine is exactly the opposite and very much for the better; he mistrusts Prebisch and gives as his illustration the fact that Prebisch, in his plan, said that the oil industry must be conducted as an Argentine Government monopoly, and when Beaulac asked him why, Prebisch replied that he thought this was good politics and that no other recommendation would be acceptable; Beaulac distrusts him as an economist because he doesn't think economists should make such compromises.)

Dr. Penedo thinks that Prebisch's figures are "biased". He won't go as far as did President Alessandri of Chile - to claim that they are communist inspired.

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He speaks with loathing and distaste of the Peron period, and no wonder. He was in jail three times, once for 100 days. One time when he got out he ran into the Foreign Minister who asked him what could be done to improve Argentina's relations with the United States. Dr. Penedo replied, "Just the opposite of everything you are doing now!" His property was confiscated. He had valuable land in the lake district which was purchased at a fraction of its value. There is no recourse now. This seems to be universal here in the Argentine. People can't sue the government for recompense for expropriated or ruined properties.

Dr. Penedo thinks that Argentina's greatest need is money for credit for internal development. Interest rates must be brought back to normal. The banks must loan money on the same basis to equally qualified companies, rather than making decisions according to special privilege.

He thinks that Castro is a mad man, paranoic, and wholly out of the customary pattern of Latin American Dictators - "He is unique".

He disagrees sharply with the statement made to us in Washington that the great need of Latin America is land reform. He says that this will come about automatically when it's more economical to break up the big estates. He points out that the size of farms has grown in the United States in the last 20 years and that the number of tenant farmers has increased. He says that when it is more economical to conduct farming in smaller units, this will come about without any forced measures on the part of the government. He states that in the early days of the United States, the land was owned in

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big chunks, but these broke up automatically because they were uneconomical. He seemed to agree that it would be legitimate to provide money and credit so that farmers could buy the land for themselves. (I am not sure that I am doing justice to his views here but I wanted to report my understanding of them if only to indicate that there are greatly varying responsible views on the subject of land reform.)

He speaks well of Alsogaray, "an able man" - and thinks he is proceeding in the right direction. He wants Governor Stevenson and me to visit with Mr. Klein, Finance Minister, and Mr. Mendez Delfino, President of the Central Bank (of which Prebisch used to be General Manager).

Dr. Penedo emphasizes, as does Ambassador Beaulac, the enormous differences among the Latin American countries and the folly of talking about Latin America or South America. He asked, "What have we got in common with Nicaragua?" He thinks in terms of three great units - one, the Indian country; two, Brazil, which is a great unit in itself; and three, Argentina and the rest of us - (white).

Like the Ambassador, he emphasizes the great responsibility for policy and development on the shoulders of the countries themselves. He recognizes the limitations of United States policy.

A professor, who is no longer teaching, he bewails the state of the universities. He says the professors change all the time; that the classes are enormous; that the only role of the professors is to give examinations to the students; that the students don't attend classes; that the standards are "low and abominable and outrageous"; thus the students run the university and completely

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demoralize it; that a student can fail one month and go right back and start again the next month; and much, much more to the same effect. I asked him how his university was 30 years ago and he seems proud of it then. He quoted the Russian Ambassador. Because so many of the students' organizations are communist dominated, someone asked the Russian Ambassador whether in the U.S.S.R. the students were permitted to run the universities. The Ambassador snapped back, "Absolutely not!" We talked of the high standards of Soviet training.

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ARGENTINA

Cat. #1695
Memo #61

3/16/60

LUNCHEON WITH MR. KLEIN, SECRETARY OF THE TREASURY

Governor Stevenson and Senator Benton

Miscellaneous Notes

Mr. Klein said that there wasn't any policy on the part of the government to reduce prices. The hope is to stabilize them. He says the government doesn't want to try to legislate price control; that police action has proved to be ineffective.

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When I joined the luncheon the Governor was talking about the problem of changing the dietary habits in the Argentine. Publicity has been given to the eating of fish. Liver and other parts of the steers have been thrown away. Argentinians should eat more vegetables, but the Minister complains that the Italians who control the distribution of fruits and vegetables in Buenos Aires, all of whom are small operators, conspire in various ways to keep the prices up. I laughingly referred to the Mafia as a possible source of the conspiracy - and the Minister agreed.

Of course the objective is to cut down on the enormous per capita consumption of meat - in order to provide meat for export.

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The Minister explained that during the thirties the entire internal and external debt of the Argentine had been refinanced. Interest rates had been brought down from six to eight percent - to four to five percent. The Argentine now has no external debt.

No bonds have been sold since 1945. An effort to float internal bonds will be made this year. The Minister speaks generally of

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selling them at an eight percent interest rate, perhaps at 90. This will give the hope of capital gains. The capital gains tax rate is only five percent. There are no taxes at all on the interest of government bonds. With a top tax bracket of 60 percent for individuals - at two million pesos or about $25,000, this should provide incentive for the purchase of such bonds. (The corporation tax rate is 33 percent, 30 percent plus an emergency three percent.)

The Minister says that the Treasury Department had an excellent tax collecting department in the thirties. Peron brought in corruption everywhere. This demoralized the employees in the tax department. Peron and his lieutenants used the tax department to bring pressures of various kinds. A new head of the tax department, charged with responsibility for re-organizing it, is to be appointed on Monday. His biggest problem is the low morale of the staff, broken by the experiences of the last 12 years plus the problems caused by inflation.

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The Governor asked about interest rates at banks. They are now prohibited by law from paying interest on demand deposits. Some of the banks want this changed. They charge about 15 percent for short-term money and they pay ten percent or thereabouts for time deposits.

There is of course a very great shortage of money. Private individuals loan money at 30 percent or more. I asked about the "favored treatment" given to some companies by the banks, reported to me by Mr. Pinedo. Secretary Klein thinks that the bank administrators are now using their best judgment, with favors at a minimum.

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The Minister objects to "cheap official credit" for companies such as Kaiser. Further, he says that Kaiser was permitted to bring cars from the United States duty free, selling them at such a fabulous profit in this protected market that they raised the money to finance their factory. I remarked that perhaps it wasn't a bad idea to have the Air Force as a partner with 18 percent of the stock! The Minister likes the idea of joint ownership between Argentinians and foreign owners.

* * * * * *

I told the Minister that Mr. Pinedo objected to Mr. Prebison's idea of a high tariff wall around the Common Market, though he approved enthusiastically the idea of the Common Market itself. The Minister does not think Mr. Prebisch has clearly committed himself on this point.

Governor Stevenson commented on the paradox here in the Argentine: a President who believes in heavy protection with a Minister of the Economy who wants free enterprise and who favors liberal trade policies. Secretary Klein suggested that President Frondizi did indeed advocate "heavy protection", at a previous period of his career, and also favored a planned economy. Secretary Klein thinks that he is now "more liberal" - indeed he states this unequivocally.

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The Minister said that he did not think the big landed estates were an important problem. Often they are more efficient. He told us of big sugar plantations which had to support their inefficient small neighbors. He said that the big estates were essential for

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efficient cattle breeding. He mentioned several areas of the country where the land is well divided. But he put his principal emphasis on an Argentinian law of 1870. This compels the distribution of all property upon death - in equal parts to each child. Only 20 percent of the property is at the free disposal of the parent. Unless a family corporation is formed, to keep the estates together, they are automatically broken up with death. The Minister commented on the fact that settlement was new in Patagonia, and the great sheep ranches didn't date back to before the turn of the century - and death had not operated over a long enough period to break them up!

* * * * * *

The Minister seems to have spent much of his life in public service. His English is very good. He's a gray-haired bespectacled man in his fifties with a most pleasant ingratiating manner. He speaks precisely and exactly, particularly on matters pertaining to money or interest rates.

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ARGENTINA

Cat. #1696
Memo #62

3/18/60

MEETING IN BUENOS AIRES WITH MR. CRISOLGO LARRALDE,
LEADER OF THE PEOPLE'S RADICAL PARTY
(Governor Stevenson and Senator Benton)

The meeting was arranged so that we would hear the views of an important opposition leader. I understood Mr. Larralde to say that his party is the biggest single party in the Argentine and that he is a former candidate for vice-president.

Mr. Larralde isn't worried about Peronism. He says the Peronista party will last only as long as Peron is alive. He does not fear his return. But he says that Vargas of Brazil, and Ibanez of Chile, after they had been deposed as Dictators - and when subsequently they then legally returned to power - were pretty good democratic leaders! He assures us that he doesn't think Peron ever will come back, and that he represents no danger, but he suggests that if he did - and were legally elected - he might not be so bad!

But he is desperately concerned about Communism. He says that Communism is as hard to fight in the Argentine as anywhere in the world. Every time there is "a deception by American business", the people here feel they've been let down and are willing to listen to the Communist propaganda. We pressed for specific examples but none were forthcoming. Mr. Larralde opposes the giving of easy credit to Americans who come here with good credit because they have cash in the United States - but who do not bring their cash with them to the Argentine.

He is deeply suspicious of Frondizi in part because he came to power with Communist support. He says popular opinion in the army, after his election, made him toss the Communists out of his

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administration - but "many are still around," and "have access to Frondizi". They may be out of the key jobs but "he still has obligations".

Communism is helped here, he says, by the lack of enterprise of Argentinian local investors. They have no tradition of investment. They want the biggest possible profits. They lack social consciousness. He says we can't count on economic cooperation between the Argentine and the United States - to build suitable relations between the two countries - because the type of Argentinian doing business is not responsible. Relations by U.S. business with such people aren't going "to remedy matters". He feels that the soundest relations can only be developed through diplomatic channels.

The Governor pressed Mr. Larralde for specific recommendations applied to Communism. The Governor said he wanted to know what the United States could do about it. Mr. Larralde has spent a lot of time in the United States and he came through with some very concrete ideas:

A) He wants lots of translators of U.S. material on how to fight Communism. He read much excellent material when he was in the United States. This should be transmitted widely throughout South America.

B) He thinks there is much too much talk about economic development. He urges Governor Stevenson and other leaders to speak and talk much more about "the fight of ideas". (He liked the Governor's statement to the press that he didn't believe that Castro was a Communist, and felt that

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he agreed but he heartily condemned Castro for his killings, and his expropriation of property without compensation.)

C) He wants much more information about the great cultural tradition of the United States - its literature, its belief in law, its political and juridical history and tradition, et cetera. This will counteract the "view of the United States which is negative, and wholly materialistic".

D) He wants much closer relations between United States and Latin American labor leaders and labor unions. He spoke of Mr. Romualdi as being "very good". He wants more exchanges, more Romualdis, many more labor publications translated into Spanish.

E) He wants to multiply exchanges of people and information on a very large scale. He says that the Cultural Attache here in our Embassy is very good, and so too is the Labor Attache, but their efforts are on much too tiny a scale.

F) He pleads for sending anti-communist material to the newspapers. He said, "Even in papers like La Nacion, there is no serious discussion of what's wrong with communism; very few people here in the Argentine have any idea what's going on behind the Iron Curtain; they read mostly about Soviet achievements and little else." (When he complained that La Prensa and La Nacion have no correspondent behind the Iron Curtain, the Governor commented

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that few papers do!-) The Governor asked about the services of the AP and the UP, but Mr. Larralde did not comment directly. Perhaps it is significant that he didn't criticize them.

* * * * *

All in all Mr. Larralde gave a whale of an argument for a greatly improved and stepped up program by the USIA. Mr. Larralde emphasized that his party stands for political stability. He feels this is essential for economic development. He thinks the elections in ten days are going to prove bad for the government. Governor Stevenson asked whether the stability of the government would be affected. He replied, "This depends on the size of the blank vote; this vote is a vote of contempt; it is a sore in our national life; we need an antibiotic with which to combat it". The Governor asked whether it wouldn't be better to legalize the Communist and Peronistic parties so they would have candidates to vote for. Yes, said Mr. Larralde, this would be better - yes, he favors legalizing "even Communism". If the Communists work in the open, "we shall know who they are, how many there are, what they publish, et cetera:"

Mr. Larralde spoke of Governor Stevenson in the very warmest terms; his admiration for him is deep and genuine as is that of all political leaders of all parties in all these countries. The universality of this admiration is not particularly surprising - but its intensity is!

Dictated in Buenos Aires
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ARGENTINE - BUENOS AIRES

Cat. #1699
Memo #65
March 22, 1960

To: Mr. John Howe

From: William Benton

My very disorganized memos on prior discs about my visit with Mr. Patterson were written in his presence during our two hour visit - a paragraph now and then - and I know that they will seem most disorganized and perhaps in parts even contradictory. I'm now writing you after he left. He's a fascinating guy and you will be visiting with him shortly in New York yourself - so I hope. Most interesting are his ideas on the urgent need for strengthening and developing the Latin American universities. He says that Point Four programs have gone to seed. They're beating the same old gums on the same old project. Losing steam, they need rejuvenation. Because the problems were different here in the Argentine, he has had to invent new things.

He feels that the United States should now take the lead all over South America in selling the top Ministers on the essential need of the development of science and technology - essential to industrial development, to agricultural development, etc. This involves real budgets at the federal level for the universities. There isn't any post graduate work here in Latin America. He speaks of the universities as "the last remnants of Europe". He points out that they have no resemblance to universities in the United States. Often there are no entrance examinations; no attendance records; the professors aren't professors - they teach for prestige which will help them make money privately.

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He speaks of the "taxi professors" who use "warmed up notes from courses they once took in Europe". The professors don't keep up with developments in their own fields. He speaks of the students as "kibitzer students" - without laboratories and without libraries. He says that the students, with nothing to do, fall into the hands of agitators. They "take to the streets, sometimes led by a dean".

Mr. Patterson wants to make the South American universities a major project under Point Four. He feels that this will cost the United States more money for the next ten years - but far less money in the following 100! In the letter attached, note the six key fields listed under Point One on the first page.

This proposal, known as the Argentine Proposal, originated with Mr. Patterson. This has been submitted to the Committee of 21, (OAS). He feels these six fields are the key ones. I commented that I thought there were important differences among them. Thus we know a good deal about teaching engineering and if a boy goes to MIT or Cal Tech, he can be turned out as a good engineer. Similarly we know how to teach agricultural technology. I said I did not feel we could be equally confident that we knew how to teach "business administration". He thinks we can at the middle level, if not at the top level.

Mr. Patterson wants to develop major universities, specializing in these six fields, in Brazil and the Argentine. Then he favors developing one or two of the departments at other universities in other countries. He says it will be easy to send the students from Paraguay, Bolivia, etc. to the three key universities. Tens of

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thousands of Latin American students must be trained. The United States can't possibly handle them all. He says only the most brilliant students should be sent to the United States.

As a marvelous example of how to build up a Latin American university, he cited the present project at the Catholic University (private) in Santiago, Chile. This is the project of the Economic Department at the University of Chicago under Professor Schultz. He refers to it as the most concentrated project at any Latin American university. He says that one grave problem in Chile is the Marxist, left wing-oriented economists who have come from the university departments and infiltrated into the Chilean government and economy. (We had exactly the same report on the Economics Department at the University of Mexico and its impact on the Mexican government and economy.)

Four men from the University of Chicago are now active on the faculty of the Catholic University, helping to rebuild the Economics Department. Nine of the brightest boys are in Chicago taking their PhDs. Professor Schultz said that the brightest student of the 150 graduate students in Economics at Chicago - is a Chilean. Professor Schultz commented, "Chile will never be the same again when these boys return". The boys have agreed to teach in Chile for several years when they return. Mr. Patterson thinks that the entire Economic Department of the University can be rebuilt in five years.

I suggested that boys as bright as these won't want to come back to Santiago, or to spend their lives teaching at the university.

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He doesn't agree. He says this depends on how they were selected. He helps select about 150 students annually to go from Chile to the United States - and "97 percent come back".

He makes the interesting point that Chilean and Argentinian students who go to the United States, if properly picked and if they sign an agreement - will indeed come back and integrate themselves into their own universities and economies. But he says students from Paraguay will not. They come from a subsistence economy, run by a dictator, and the emotional shock of the change experienced in the United States - either demoralizes them - or persuades them that they do not want to return to Paraguay - or, if they do return, they become embittered and of little value. He feels that the Paraguayan students should go for their education to the Argentine, let us say, where the emotional adjustment is much easier - and where it's a far easier transition for them when they return home.

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I'm persuaded I want to give a big section in the forthcoming article to the universities. There's plenty of good material in this splendid memorandum of 1958 written by Professor Silvert, given me by Mr. Patterson. Other material can be readily pulled together as my previous memos indicate. Note in particular in Mr. Silvert's memorandum the reference to "the reformer enunciated in the University of Cordoba in 1918.."(page 2). Here we see the origin of many of the problems which now plague the universities. Mr. Patterson said that the communists and communist student leaders were very quick to see the importance of the Argentine Proposal to OAS - and of course they're fighting it.

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I suggest that Mr. Howe take this memorandum along when he visits with Mr. Patterson. Show it to him and get his comments, corrections and amplifications - and his further suggestions as to how we should proceed to collect the material which we need.

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ARGENTINA

Cat. #1700
Memo #66

3/15/60

BRIEFING SESSION WITH THE AMERICAN AMBASSADOR, AMBASSADOR BEAULAC, AND HIS STAFF ON OUR FIRST MORNING IN BUENOS AIRES, GOVERNOR STEVENSON AND PARTY

Ambassador Beaulac opened with a theme which I later discovered is a favorite one with him and he brings real authority to it. He has been an ambassador for sixteen years, longer than any other present ambassador. He has served in Paraguay and Chile as ambassador - among other countries - and indeed has spent his entire career of thirty years in the Foreign Service - in Latin America - except for one term of service in Spain. He says that the United States does not have "relations with Latin America". Our relations are with twenty separate countries. He objects to talking about relations with Latin America. Such talk leads to "vague generalities". Similarly, "the U.S. can't think in terms of doing things for Latin America". He stresses that the U.S. is traveling a two-way street with twenty other countries. Thus we can only talk usefully about one country at a time, specifically and concretely about the one country. This is the way to avoid the "vague generalities".

The Ambassador explained that people in the Argentine want better living standards "which means economic development". He said that many Latin American governments put handicaps in the way of the use of their resources, which means handicaps to economic development. The Argentine is a good example of this. Thirty years ago, Argentina was an advanced country. Peron was unable to destroy the country only because it was strong and had vitality.

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The tendency in a situation such as we find in the Argentine today too often is, "we can solve our problems if you help us". The Ambassador is skeptical of such an approach.

The Ambassador explained that Peron spent the country's patrimony; he was "punishing agriculture to help inefficient industry". If we had "poured money into the Argentine, he would have wasted it; he would have used it as a credit base for foreign loans which he also would have wasted".

In the Ambassador's judgment, Peron threw away the $600,000,000 which he used to purchase the railroads. The British were supporting these railroads and now their deficit is a big factor in the present government's deficit. Similarly, Peron wasted the money with which he purchased the American Telephone Company. This company is now running at a deficit and further the service is very bad!

When President Frondizi came into power, he took the controls off. Meat prices promptly trebled; gasoline prices also trebled; the total price level doubled. Frondizi showed great courage "in reversing former policies". These policies are being carried forward by his Minister of the Economy, Mr. Alsogaray, an engineer and former military man whose biography should be attached to the memorandum on our interview with him. (It's in the little book prepared by the USIS.)

The big present hope for improving the economy is Frondizi's oil program. He entered into contracts with several American oil companies, and also with Shell and an Italian company. The oil fields

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had already been discovered, so the companies did not face the risks of exploration. Indeed, their risks seem negligible. My understanding is that they are investing something like a billion dollars. The remarkable story of the pipeline is told in part in Mr. Train's letter, which I have forwarded. The hope is that by 1961 Argentina will be producing its domestic needs in petroleum. They are now importing $250,000,000 to $300,000,000 worth of oil annually. This approximately equals the present deficit of imports over exports. The Argentine people have been as emotional about petroleum as a national resource as the Brazilians are today. But their government monopoly was most inefficient. Yet any Argentinian who proposed the foreign exploitation of the oil fields would have been regarded as a traitor. Mr. Alsogaray was the first important Argentinian leader who had the nerve to stand up against this tradition and to demand a new policy. Under this policy, the government retains the ownership of the land and the wells - while the companies put up their own money and produce oil for the government's oil monopoly. They are paid by the monopoly for the oil at world prices. They will make as much money as if they owned the land. This new policy promises oil for Argentina in the shortest possible time.

Of course after Argentina achieves a balance in its foreign imports and exports, it will still need money to service the debt which has been accumulated - and this money must be provided by exports which only agriculture can provide. Here is the second great area of present hope in the Argentinian economy. The U.S. has not been in a position to be helpful, under past policies, but we now are.

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Our Point Four Program here is called "Operation Beef". It has three characteristics:

1. It has the support of the President. This gives the program "agility".
2. It is directed to a basic objective - basic explicit and fundamental - and the country will itself finance the program.
3. It requires minimum American personnel (but these must be the best available.)

The Ambassador then turned to Mr. Albion Patterson, a most remarkable officer who has been in Latin America since he started with Nelson Rockefeller in 1942. He graduated from Princeton, trained in the liberal arts, and started to specialize in agriculture when he was sent to Paraguay in '42. He has developed a substantial library on agriculture and is regarded as an expert. He is head of the Point 4 program.

* * * * * *

Mr. Patterson explained that Nelson Rockefeller got going with his "Point Four Program" in 1942. (He was the pioneer with such ideas and Mr. Patterson feels he did a phenomenal job during the war years, with the help of the most unusual staff which he assembled.) In these early days, Argentina stayed aloof from any tie-up with the Americans.

The Argentinian Cabinet was divided on war policy in '42 with many of its members pro-German. (Mr. Penedo, then Minister of Finance in the Cabinet, who was himself pro-United States, later told me that Ambassador Norman Armour was in to see him every day!) Ambassador Beaulac and Mr. Patterson both emphasized how much the climate has

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changed here in the Argentine, in its attitude towards the United States, since 1942 - and in the extent and kind of nationalistic feeling. In the early forties, the country's brand of nationalism was very different. If the Argentine had cooperated in 1942, it would have been easy to promote "the Rockefeller services". Today, the strong leftist tendencies among the electorate can easily be fomented into aggressive nationalism. This makes such cooperation very difficult. Mr. Patterson explained that he has been seeking new mechanisms. He hopes that some of these may turn out to be helpful to other countries.

Mr. Patterson told us that President Frondizi believes that "after oil comes beef". He explained how Peron had taken the money from "the camp". (The word "camp" is a colloquial expression for the ranches and haciendas on which cattle are raised.) Mr. Patterson explained how the stock had been killed off because of controls and the lack of incentives to produce more. The size of the cattle herds dropped by six million.

Today beef production is two million tons. But home consumption is so heavy that only 200,000 of these tons are available for export. (There's a big campaign on to persuade the Argentinians to eat less beef so that more will be available for export!) The goal is to step up this 200,000 tons to 600,000 by 1965. Exports go largely to England and to a growing market in Latin America.

Dr. Adler of the World Bank recently prepared a study of the world market for meat. He decided that the market was unlimited! As its income rises up to $15,000 a year, the average family eats more

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and more red meat. Beyond this level the wealthy ask for choicer and choicer cuts!

Mr. Patterson thinks that $300,000,000 in increased exports for meat can be developed by 1965. The big packing companies seem to agree because they are investing considerable sums right now in their plants and opportunities in the Argentine.

A most important development is that the Argentinian government has now admitted that their cattle really have "Hoof and mouth" disease. They have denied it for years. This reversal means that they may be prepared to do something about it. We can help with leadership and with vaccines. Killing this disease would enormously step up production. Indeed this disease is the biggest handicap to production.

Mr. Patterson thinks that our law excluding fresh Argentinian beef is wholly justified. The disease doesn't affect those who eat the beef, but it is transmitted through the fresh beef. Butchers throw it into their backyards or feed it to hogs and the disease breaks out. There have been 100 such outbreaks in Britain due to South American beef. The British have learned how to throw a cordon around the outbreak - to butcher all cattle within the circle - and to eliminate the threat. Footwear worn in the area must be discarded before stepping beyond the cordon.

In cans, Mr. Patterson says, the beef is okay and the disease does not spread. The heating has killed it.

The present argument with the Argentine over hoof and mouth disease centers around our importation of raw beef which has been salted. Laboratory tests in the United States showed that this

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salting does not kill the virus of hoof and mouth. But for 30 or 40 years we've been importing such beef - for sausages and hot dogs - without any outbreak of the disease. The Argentinians ask why we suddenly shut off this $30,000,000 or $40,000,000 worth of annual purchases. Governor Stevenson thought perhaps the cattle industry might have something to do with it - and I mentioned the Texas delegation! (The Foreign Minister later mentioned this point in his opening remarks to us, asking for a commission to study the question and to come up with a true finding.)

Mr. Patterson explained that our beef production in the U.S. runs in a 13 year cycle. Last year was a low point and we imported six percent of our beef consumption. When we're at the peak of the cycle, we export six percent.

After the program for beef, Mr. Patterson said, came the problem of attracting foreign capital. Argentina suffers from a great lack of manufacturing. The country needs tractors, trucks, etc. - and these in turn develop auxiliary enterprises. The government is now seeking to attract capital by special guarantees. This is arousing great interest in the United States. One or two American firms are here every week - investigating. The foreign capital is needed to fill the present great gap of lack of capital - and is needed to provide employment to the government employees whom Mr. Alsogaray is trying to ease off the government payroll. (He isn't firing these employees - but is trying to develop policies which will make for their attrition.)

An example of the kind of special privilege given to foreign capital is the fact that permits will be issued for the importation

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of capital equipment, perhaps duty free. Further, the investor may get a permit which will allow him to subsequently export his capital. (And indeed there is no restriction on the export of capital today.)

I was especially interested in Mr. Patterson's discussion of the specialists and technicians imported from the United States for guidance and counsel. He stated flatly, "Only the best are good enough for the Argentine". He says that even after 18 years experience in Latin America, he's learned a lot in the past year in the Argentine. He says that the Best United States technicians are not available for the standard two year tour except in three fields: civil aviation, geology and public health. In agriculture, where he desperately needs top people, the best qualified men will not leave for two years. Their academic life in the United States depends on their record in scholarship and research. They must constantly investigate and publish - or their academic progress is interrupted. They cannot be away from the competitive academic life for as much as two years.

President Frondizi spoke to President Eisenhower of the high importance of top technical assistance - and of his desire to get the highest quality from the United States. This has helped some - "but bureaucracy is a great force in the United States as well as in the Argentine!" The bureaucrats of the State Department in Washington do not know how to persuade the best scientists, those of greatest interest to Mr. Patterson, to come to the Argentine for 90 days. Thus Mr. Patterson and his Argentine counterpart recently visited Iowa State University. He worked out a plan to get their best man for

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stretches of six weeks - not through the ICA mechanism, "which won't function" - but by some special plan under which he converts pesos into dollars on a special arrangement with Iowa State. A man who comes down for six weeks doesn't bring his family. He works long hours and all day Saturday and all day Sunday. Unless the man is coming for more than a year, a couple of months is almost as good as 12. Mr. Patterson says he uses a financial device, used in Washington during the war, called "When Actually Employed" - WAE. ICA under WAE hires men as in wartime, by the month, beginning their term of employment when they step on the plane. He states that this kind of operation, in his field of agriculture, is the way industry is operating here. Thus Kaiser Industries brings men down for as little as two weeks. And like the Kaiser men, the scholars from Iowa State will come back next year. Iowa State is taking 20 smart Argentinian boys for their PhD's - and the professors come here to the Argentine to work with these boys on their theses.

Mr. Patterson commented that he had no trouble getting top men through Washington when he first came down with Nelson Rockefeller in the forties: "I could get good men by telephoning to Washington". Now he says he can't get them because of the bureaucracy. His new non-bureaucratic procedure he likes to describe by the word "agility"!

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Governor Stevenson, as we were about to break up, said that he felt we should be told about the political situation. Ambassador Beaulac again took over. He explained that the Peronist leaders have their own plans and ideas - and do not want Peron back in the

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country. He told us that no party can get a majority at the polls. He explained that President Frondizi had attracted the Peronist vote, but how he had done so is an open question. His opponents accuse him of signing an agreement with Peron, who then instructed his leaders to tell their people to vote for Frondizi. But how could this have been done? If it was done, Peron must have felt he was dealing with a man who truly represented Frondizi.

After his election, President Frondizi tried to integrate the Peron vote into his own following. He did this first and primarily of course because he wanted to corral the vote for his own standard and party. Secondly, he sought social peace and the surest way to get it was to incorporate the Peron vote. His opponents of course charged him with being "soft to Peron", with "carrying out his agreement with Peron", with "trying to get control of labor through the Peronist leaders", etc. Many of the charges boiled down to an accusation of perfidy.

Frondizi failed. The Peronistas will not vote for him again. His predecessors outlawed the Peron party so they cannot now nominate candidates. The voting is compulsory, as I've explained elsewhere, and the Peronist leaders urge their followers to turn in blank ballots. We see this slogan everywhere on the walls - "Vote En Elanco".

The Ambassador regards this Peronist vote as a menace. Even though Peron was thrown out before the economy took a tailspin, and before the evil effects of his ten years of pillage and corruption were felt by the workers and the electorate - even though he was thrown out while people were still living well - he won't come back.

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Peron was perhaps kicked out too soon. A few months later, all the evil effects of his policy would have been felt and would be tied up clearly to his regime and to his downfall. (Later I talked to an observer who felt that Peron was so smart that he saw the debacle coming, and did not really fight to maintain his position, choosing rather to make his exit when the timing was better for him.)

But what should be done with this group? Who will successfully grab this bloc? The communists are now after it. The church is moving in through a Monsignor Plaza, "a politically-minded priest" who is trying to bring the Peronists into the Church.

Governor Stevenson asked, "Who is using whom?" The answer, in the judgment of the Ambassador, is that the communists are using the Peronists. The communists work underground and do not reveal themselves. (The Ambassador remarked parenthetically, "Here in the Argentine it is not we who are the imperialists; it is the British!")

The Governor asked the Ambassador to describe the communist objective. Is it to embarrass the United States? Is it to take over the Argentine government? Is it to influence the Argentine diplomatically against the West? The Ambassador replied, "It is all these things". Their objective also includes taking over the labor movement - or at least the objective of interfering with it to prevent its healthy development.

In response to another question, the Ambassador said that President Frondizi has stated that he will give favorable consideration to Chilean proposals for the settlement of the border dispute. The Ambassador thinks that Frondizi would like to reduce expenditures

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on armaments. But he is on a tightrope. The military has controlled the situation here for 30 years, and dictated its budget - and it is not going to get over the habit in a hurry. Mindful of this historic role of the military, the Ambassador thinks that their present demands are modest. Their military equipment is obsolete. They have purchased no modern jet planes as in Peru. He mentioned one bad spot in the record: the Argentine navy does not seem excessive in size - but he regrets the fact that two years ago they (and Brazil) bought aircraft carriers from Britain (we refused to sell).

The Ambassador thinks it would be a mistake right now to press too energetically for a reduction of the military forces. The problem is delicate. It is subtle. The proper balance isn't easy. The Governor asked whether the military is popular with the people. The Ambassador replied with a double negative, "It is not unpopular".

The Governor asked whether he should see General Aramburu. (The Ambassador had said that Aramburu is being groomed by the Conservatives as a candidate for President.) The Ambassador replied that Aramburu was not truly in opposition to the present administration, though he feels free to criticize it. He told us that Aramburu was a key guest of honor on President Eisenhower's recent visit. It was agreed that it would be a good thing for the Governor to make this call. (I had intended to go along with him, but after the Governor visited privately with President Frondizi, I felt perhaps it would be wiser if he also visited privately with General Aramburu, and even though the Governor asked me to accompany him, I declined.)

The Governor later reported that Aramburu told him that the administration represents only a minority of the people;

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that he thinks the policy is too rigid and being pursued too aggressively - that three or four years should be given to programs which are being jammed through in half the time or less. I further gathered that General Aramburu feels it would be wiser if the Peronists were given much more rope, through being legalized - in the confident expectation that they will split into factions and thus weaken their present ominous and solid threat through the blank ballots.

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Cat. #1700

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P.S. - To the briefing session at Buenos Aires where Mr. Patterson talked about the hoof and mouth disease.

P.S. - This is a postscript from Sao Paulo. We have just spent a day with Tom Taylor, president of International Packers - a several hundred million dollar company which is the successor to the foreign businesses of Swift and Armour. He is deeply interested in the hoof and mouth disease and its deleterious effects on productivity. I quoted Mr. Patterson to him. He says that if the hoof and mouth disease could be eradicated in the Argentine, this in itself would step up production between 25 and 33%. He now has scientists in Germany investigating vaccines. He says he has talked to President Frondizi about the problem and also to Mr. Alsogaray. He says that Patagonia is free of hoof and mouth disease. He thinks that the problem should perhaps be approached by attempts to push up the "free line" from Patagonia - further and further north - as the "tick line" was pushed back and still further backwards into Mexico. He says there are four or five different types of hoof and mouth disease and seemingly several different vaccines are required to control it.

Here seems to be one of the great problems facing the economies of the Argentine and Uruguay - and, I gather also, of Brazil.

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ARGENTINA

Cat. #1701
Memo #67

3/15/60

CALL UPON THE FOREIGN MINISTER OF ARGENTINA,

MR. DIOGENES TABAODA,

BY GOVERNOR STEVENSON AND SENATOR BENTON

The Minister agreed with the Governor that most people think that the United States is more interested in Asia and in Europe than in Latin America - but the Minister said that without the Marshall Plan, Europe would have been lost to communism. The Governor commented that he wished more people in Latin America knew this. He asked what the United States could say or do - to improve its relationship with South America. The Governor jestingly added, "I talk a lot about this and I'm not sure anyone is listening!"

The Minister replied, "We need greater knowledge about the United States and its attitudes. And you on your part need greater knowledge about our problems - particularly, right now, on the question of salted meat - and we need a commission to study this whole problem of meat, the meat problem between the United States and the Argentine!" (We had heard a good bit about this at our briefing session at the Embassy, and of course I was interested and amused that the Foreign Minister brought up the subject almost immediately. He is referring primarily to the $30,000,000 or $40,000,000 of raw salted Argentinian meat which has only recently been excluded by the United States. See my memo of our briefing at the Embassy.)

The Governor asked whether there was any continuing resentment about the U.S. attitude towards Peron when he was in power. The Minister said there was none. He smilingly compared our attitude towards Peron with the present Argentinian attitude and policy towards

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Paraguay. (The Minister was a relaxed and witty man throughout.)

The Minister said that the Argentine and the United States now concurred in their joint judgment of Cuba. The Governor asked about Castro's new Ambassadors. The Minister said that the new Cuban Ambassador was a young man "who has just arrived and I don't know him!" He added that The Gueverra (?) is an Argentine Communist.

The Governor said that many in the United States had the impression that Cuba is becoming communist and is about to use the Cuban Embassies as communist outposts. The Minister said that he and the Argentine Foreign Office had been warned about this - and he thought there was no danger that the Cuban Embassy would be effective in Buenos Aires. The Governor said that he felt the real danger was within Cuba itself. The Minister replied that the Mikoyan visit "was no accident and there must have been something in the background. He said that Mikoyan may visit the Argentine in May - but he reassured us that the Argentine people were "pretty conservative and were not hungry and that there is no danger".

The Governor asked about the Soviet broadcasting. The Minister said that the short wave reception in the Argentine is poor. He referred to other forms of propaganda. He said the "clandestine propaganda" is far more dangerous.

The Governor then asked about the possibility of arms control in South America, a subject he brings up in most interviews and on which these reports have touched many times before. The Minister replied, "Your views on this subject are well known". The Minister continued, "Our arms today are so old and antiquated that they serve

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no useful purpose." The Governor asked whether the Minister hoped for disarmament. The Minister agreed that this was possible in South America. The Governor kept pressing him: what steps can be taken? The Minister replied that Chile was taking the initiative, that nine countries were discussing the matter. (See other memos).

The Governor asked whether the arms expenses in the Argentine could be reduced. The Minister did not answer this question directly. But he volunteered that the Chile boundary dispute could be arbitrated and will be arbitrated. He said flatly that Argentina wanted arbitration. He assured us that the Argentine was about to come to agreement with Chile. He added, "Whatever we cannot now agree on, we want and desire to arbitrate". (This of course is a very different report from the one we received from the two Ministers with whom we visited in Santiago).

The Governor asked about his hope for agreement on the boundary dispute between Ecuador and Peru. The Minister said this had to be put off until after the Ecuadorian election. He said he had spoken to Secretary Herter about this. He said he had suggested to Herter that after the election, the four guarantors get together on this boundary dispute. Can't they then see to it that it is settled? He regretted that this dispute had become a "political football". The Governor pressed for a more specific answer. The Governor asked, "After the Ecuadorian election, then what?"

There was talk about the four guarantors demanding that "the treaty" be lived up to. The Governor suggested that conditions had changed, and that this seemed to invalidate the treaty. The Minister

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stated that if the Latin American countries themselves cannot solve such a problem - then the United States can help decide the answer. He stated that war should be impossible and he added, "The day the United States refuses to sell a rifle or cartridge to South America - on that day there will be even less a danger of war - and war between Peru and Ecuador is unthinkable." (This remark, which was not discussed or examined, caused the Governor to say that he "had the feeling that we should get Britain and France to agree to terminate all sales of arms to Latin America." And this in turn caused the Minister to reply that it was "not as easy as all that." Giving the conversation a new twist, the Minister complained that Argentina's arms were "old" - that Argentina needed new and up-to-date equipment.

The Governor volunteered that there would be no trouble agreeing on adequate equipment for the police. He said that the problem is "offensive equipment". He spoke of the rumors we had run into in Peru that President Prado had bought French jets on his current visit to Europe.

Skepticism was expressed of Khrushchev's proposed "disarmament in four years". The Minister said that this made him skeptical of the likelihood of refusal by the United States to sell arms.

The Governor suggested that if the West refused to sell arms to South America, the "finger of suspicion would point against any country which then bought arms from the Soviet bloc." The Governor said that he favored a broad agreement against the purchase of armaments - rather than a unilateral policy by the United States. The Minister replied simply, and somewhat contradictorily in line with

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prior discussion, "Every effort at disarmament is backed by the Argentine." He said he considered the United States the great bulwark of Western hemisphere defense. He re-emphasized the fact that the United States "had saved Europe and had blocked Communism".

But the Minister added that he hoped that the United States "would listen more " - would listen to advice from South America, whether it's good or whether it's bad, or whether the U.S. follows it or doesn't. The Governor answered this last sally with the comment, "Most emphatically I agree, and we've been at fault." The Governor then thanked the Minister for what he himself had done in changing the Argentine attitude towards the United States.

The Governor added that he's hopeful that the democratic elements will win out in Latin America's current political elections - and that, if they do, there is no danger of a reversal of United States policy towards South America. The Minister told the Governor that the Democratic party in the United States "most closely resembles your Radical party!" He went on to assure us that relations between the Argentine and the United States have never been better. This caused the Governor to tell him that the Argentine can help the United States in its relations with other Latin American countries - where confidence in the United States is less. The Minister replied by stating that if the Argentine succeeds with its stabilization program, this will have a very big effect on other Latin American countries. He spoke of the courage of President Frondizi in signing contracts with the oil companies - and he stated that the results were being watched carefully - and that he hoped the results would show

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that a Latin American country can do business with the big United States corporations "without being swallowed". He added further that the present Argentinian policy will show that smaller countries must help themselves - and that if they do not help themselves, the United States is throwing its money away in trying to help them.

The Governor asked about the Common Market. The Minister said that the results in the first year or two would be "little if any". He explained that a lot of the countries "don't know what the idea means". He said that the night before the Common Market agreement was signed, it almost blew up "because some countries didn't understand what it was all about". He said that the Argentine government was very tough in pressing for agreement on the Common Market. He believes that it will be three or four years from now before the idea begins to pay off. The countries do not yet understand that this is a "regional agreement" which does not prevent other economic agreements to their own advantage.

The Minister warned us that he doesn't himself agree with everything that Alessandri says on disarmament - but that in general he is wholly behind him.

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ARGENTINA

Cat. #1702
Memo #68

March 14, 1960

MISCELLANEOUS AND VERY RAMBLING COMMENTS ON IMPRESSIONS, EVENTS AND ANECDOTES OF THE THREE OR FOUR DAYS DURING WHICH I HAVE NOT HAD A DICTATING MACHINE - HAVE TAKEN FEW IF ANY NOTES - AND HAVE HAD NO INTERVIEW TO REPORT

At the cocktail party given in Cordoba by two former Governors of the Province - in an attractive country house surrounded by vineyards - I met Dr. Amelio Descotte. He has just founded the new University of Mendoza. This is a private university founded under the new agreement with President Frondizi which permits the establishment of private institutions. (Three universities have been founded by the Church, I think by the Jesuits.) The University of Mendoza is the only new university which is non-religious. He claims for it many of the features of the University of the Andes in Bogota. For instance the students are not on the General Council and don't have any control over the university!

(In Buenos Aires, at lunch with Ambassador Beaulac, he told me that an important project under Point 4, which he wants kept confidential, is the reorganization of the University of Buenos Aires so that it will have full time professors; full time students; tougher entrance examinations for students - and, by implication, a curriculum of higher standards. Ambassador Beaulac says that when he was Ambassador to Chile, he and his associate, Mr. Patterson, who has been working on Latin American problems since the Nelson Rockefeller program, for 18 years, established the University of Chicago project at the Catholic University in Santiago - costing a good bit of money and involving part time and full time

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residence of Chicago professors - and the Ambassador says that this project at the Catholic University has created the best Economics Department in all Latin America.)

The University of Mendoza is just getting off the ground. The next morning Dr. Descotte sent me a big batch of material which I've turned over to Carleton Smith. (If he does not send it will Miss Cronin please get it - with his interpretations, if possible.) I told Dr. Descotte of the meeting at Santiago under the auspices of the Carnegie Corporation and advised him to develop pioneering projects which would warrant his application for funds to American Foundations. He has established a faculty of law, and my understanding is that the faculty of medicine comes next. We were told that there is an excellent medical faculty at the University of Cugo, the State University in Cordoba which we visited.

* * *

At the University of Cugo, we were greeted by the rector and escorted into a big wood-paneled room which is used for ceremonials, such as the awarding of diplomas - and the Governor answered the customary questions from the faculty. He tossed one question at me, "What role have universities played in the development of the United States?" I told the story of their importance since the founding of Johns Hopkins in 1875 - followed by the University of Chicago - which in turn stimulated the development of the colleges, such as Yale, Harvard and Princeton into great universities.

The Governor and I were given small pennants and gold medals. I found the pennant rather pathetic. I am enclosing mine. My understanding is that the original name of the university was Monserrat.

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The rector took us to the library, an impressive looking vaulted room. As with other visits to universities, the Governor made a fine impression and I'm sure the visit was productive from the standpoint of general relations of the United States with the intellectuals of Latin America - but we benefited but little from it.

* * *

We've been trying to pin down the salaries of professors and we get varying reports. Seemingly a part time professor, and this covers most on the faculty, gets about $40 a month. At some universities, no more than 20% of the professors, if that, are full time. The reports on their salaries vary. My impression is that they earn somewhere between $175 and $200 a month - with rare exceptions earning as much as $275 or $300. (This is one of the grave problems; Ken Holland's organization will know about it.)

There are six National universities, all with free tuition. See page 88, in the attached little pamphlet which shows the total of nine universities and which seems to confirm my impression that there are three private ones and all very new. This page shows the total enrollment of all universities at 142,000 with 60,000 of the total at the National University at Buenos Aires.

In Bariloche we visited a fascinating Institute of Physics. I did not take any notes but I picked up several pamphlets which are in the hands of Dr. Smith for comment and translation. I make this note to remind my office to follow through with Dr. Smith and to make sure we get these pamphlets. This institute is training students in physics approximately for the level of the Masters Degree. We met

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two American professors and one English professor assigned to it - Drs. Melvin and Connors, the latter of the University of Chicago (Argon Institute) and a Professor Davies from Britain. We were shown through laboratories and saw much technical equipment, some of it from the United States but much of it from various countries of Europe. Dr. Melvin explained to me how the Argentinian professors work in this institute and at the Argentinian Universities - at very great personal sacrifice. In contrast to their $200 a month or thereabouts, they could earn many times this in private industry. They receive many tempting offers from outside the Argentine. I gather that something like 50% of the Argentine's best trained scientists and scholars in the natural sciences have left the Argentine for jobs in other countries.

We heard a lot about the notorious Dr. Richter, an alleged atomic physicist, whom Peron backed with $5,000,000 or thereabouts, and for whom he built an expensive plant on an island nearby, now abandoned. Dr. Richter is now raising chickens. He seems to have been a kind of modern Merlin, half-quack, but perhaps self-deceived, who cast a spell over Peron and extracted large sums from him. Among his exploits were the employment of beautiful German secretaries who lived with him and his associates on his island.

We visited this Institute at the end of the summer session, a special session wholly apart from the regular academic year. It is housed in modern buildings which resemble quarters for officers at an Army camp. We saw a nice neat room with twin beds and modest furniture, for students, which resembled a room at an American secondary school.

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Perhaps the Governor understood the equipment - but I didn't! The professors were very proud of their institute and of their equipment and insisted on escorting us from room to room. The project is manifestly a remarkable one, conceived nobly, dedicated to high ideals.

* * *

At Senora Ocampo's cocktail party in her big 19th Century family house near Buenos Aires, we met distinguished intellectuals, including Mr. Major, famous novelist, and Mr. Jorge Luis Borges, famous short story writer. (New Directions is about to publish his first translation in English and he was greatly interested in New Directions.)

Dr. Smith, I think it was, called Mr. Borges Chile's leading writer. He is a professor of English and American literature and his course is divided into fifteen sections or units. I asked him how they were divided between English and American literature. The division is nine to six. I felt this very flattering to American literature! He is greatly interested in Mark Twain and we talked a bit about Huckleberry Finn. Some time back there was a review in the New York Times' Magazine Section - I'd say three to six months ago but no longer - a very lengthy review - which told the background of the original publication of Huckleberry Finn, and the critical assaults upon it. I hope this article can be located, and I believe I tore it out myself and sent it to Mrs. Wilkins because I thought I would use it in a commencement speech together with the Redfield material about Huckleberry Finn. Will you please send this article to Mr. Borges? His address is Maipii 994, Buenos

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Aires, Argentina, I also told him I would send him a set of the Britannica in return for some of his books. Please send off the set.

Mr. Major is a former Argentinian Ambassador to UNESCO. I did not realize that the Latin countries send ambassadors to UNESCO. He agrees that UNESCO has not remotely lived up to its potentialities. I told him this would be impossible until UNESCO went regularly on the agenda for discussion at meetings of the foreign ministers!

* * *

The protocol hangs so heavy that I can cut it and I occasionally get fed up with it and so told Ambassador Gaviola, the protocol officer from the Foreign Office who met us at the border and has been with us ever since. I told him I wouldn't attend another dinner where I sat between two men neither of whom could speak a word of English. He promised me that at the next dinner I would have one next to me who could speak English. I told him I demanded two.

At dinner in Mendoza, given by the Governor, I sat between the attractive and charming Vice-Governor, Sr. Pedro L. Luja, a full time politician who was charged with being a Communist by the representative who was accompanying us from the American Embassy, (a 43-year old Pennsylvanian named, Ellwood Rabenold) and Dr. Rodolfo Calvo, President of the Chamber of Deputies. Neither knew any English. Dr. Calvo is a quiet spoken young physician. Through the interpretor sitting behind us, I asked him how it happened that as a physician he had gone into politics. I asked him why he hadn't left politics up to the lawyers as the doctors do in the United States. He replied, "The lawyers all sold out to the generals and this brought the physicians into politics!"

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And the next day in Cordoba, I again sat between two who couldn't speak a word of English - the Brigadier General in charge of the air base in Cordoba, and the Governor of the Province whom we were told is a potential candidate for President. The latter is a big tough strong minded man who walks with a limp, handsome and earthy. He devoted most of his time to talking to Governor Steven-son. I talked to the General about the interest of the Air Corps in the economy of the Argentine. Under Peron the Air Corps was responsible for vehicles, as the army was for steel. As a conse-quence, the Army owns the steel mill here which was financed by a $60,000,000 loan from the Export-Import Bank.

(I chatted with the Ambassador about how the Export-Import Bank loan to Chile for a steel mill - at $80,000,000 as I remember it - had been worked out so that private Chilean citizens own the mill - whereas in the Argentine the mill is owned by the Army. The Ambassador said that the loan was under the regime of either Assistant Secretary Miller or Assistant Secretary Holland - while Nufer was here as Ambassador - and that it has been criticised first because it was to the Peron government and secondly because it has built up "statism" in the form of ownership by the Army. Ambassador Beaulac says there isn't any private capital in sight any-where to take the mill over and that it would be impossible to turn it over to foreign interests -

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but he is hopeful that the mill will ultimately find its way into private hands.)

Because of the Air Corps' power in the field of vehicles I discovered in our tour through the Kaiser plant that it owned 18% plus of the stock interest in this important company. Mr. McCloud, manager of the plant, told me that the Air Corps itself manufactures airplanes, motorcycles, and much else. The enormous importance of the government here in the economy is brought out in some of the charts which will accompany my report on our interview with the Minister of the Economy, Alvaro Carlos Alsogaray.

* * *

I tried to talk to many of the people I've met about Peron and the experiences of the recent past - and of course it's not easy. Everyone seems to agree that Peron is all washed up; that even his followers do not want him back; but the enormous impact of his following is everywhere to be seen. The walls on all sides are labeled with the admonition, "Vote Enblanco." Because the Peronist party is illegal, it has no candidates. The method of protesting is therefore to drop in a blank ballot.

* * *

One of the most interesting points I've picked up is that voting in the Argentine is compulsory. People are fined if they fail to vote. There is believed to be about a 10% normal "blank vote" - people who don't know, or don't give a damn, and who merely go to the polls and drop in a ballot in order to avoid the fine. The belief is that the surplus over and above this 10% is the Peronista or Communist

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vote. My understanding is that the total blank vote in the last election was some 21 or 22% and there are those who think it will go up to 30% in the coming election at the end of the month.

Everybody in the Argentine has to carry an identification card. This is known as a "Voleta." This card is stamped to show that the vote has been cast. I gather it is stamped to show a marriage certificate and for many other things. Mr. McCloud is going to send me a copy of this card. I told Governor Stevenson that I thought we ought to pass a law in the United States compelling everyone to vote - that it would be of great help to the Democrats!

* * *

At Cordoba we were met at the airport by Mr. McCloud who runs I.K.A., known familiarly by these initials, the Kaiser plant which was begun in 1955 and which began to turn out vehicles one year later. Thus far it has produced 70,000 vehicles of fifteen types - jeeps, tractors, station wagons, et cetera - with 30,000 produced last year and 40,000 scheduled for this year. This is the biggest industry in the Argentine with a current volume of about $100 million. Ford, General Motors and Chrysler are now opening plants here. The average age of the vehicles on the highways is between 15 and 20 years. There are 600,000 such in this country with a population of 21,000,000. When the country had 10,000,000 population, there were 500,000. Mr. McCloud argues that as the economy becomes stabilized, and its roads are built, there is an enormous unfilled demand. He thinks the present slack in the market is for at least 1,000,000 vehicles. Some 85% of all cars sold last year in the Argentine were from his plant, -

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the import duties are very stiff indeed - and of course he anticipates a much smaller percentage of the market as the new plants open - but he anticipates a rising production. He says that today only 10% of his materials are being imported, with 90% supplied domestically. I don't think that's quite right. I think he said that 10% of his sales price consists of monies paid for imported materials - thus 90% of the sales price remains in the Argentine. He has of course helped many suppliers to develop.

I am attaching his application to the Export-Import Bank for a loan. This will tell much more about this remarkable enterprise.

Mr. Kaiser failed with his Kaiser-Frazer car in the U. S. and was left with lots of obsolete dies and equipment. An important industrialist in New Orleans whose name I think was Morrison - but I cannot remember it - a man who deals heavily with Latin America - suggested to Kaiser that he take his old dies and equipment from Willow Run (the plant was later sold to General Motors) and go into business in the Argentine. Mr. Kaiser, or his son, Edgar, I did not clearly understand which, came to the Argentine with McCloud who was then only 36. McCloud was left here and in his five years this astonishing plant has developed. The ownership is 32% in the hands of Kaiser Industries, the top holding company of the Kaiser industrial complex - 5% in the hands of a Cleveland company, an industrial engineering company which built the forge plant associated with the Kaiser plant in Cordoba, and which furnished all machinery for the forge - 18% in the hands of the Air Corps - with various other interests which I forget - but the important point is that 51% of the total

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outstanding stock is owned by Argentinian investors. McCloud claims that the Air Corps put in money for its 18% on the same basis as other investors. (The Air Corps was the co-ordinator of vehicles under Peron.)

The plant is 1,600,000 feet, and Kaiser Industries, including its Buenos Aires office for sales and finance, employ 6,000 people. There is a waiting list of 30,000. The union is strong. The men are paid by the week. They are paid for 48 hours and work 44 hours. The average man on the line earns about $22 a week while men in the forge, doing more skilled and more dangerous work, earn about $25 or $26. This latter group has been trained by men sent down from Cleveland during the last five or six months. We saw them handling the hot metal with their forceps, and the great enormous "hammers", seemingly with great skill. Mr. Smith, a director of Kaiser Industries, who represents the Cleveland interest, told us that these men learned at least as fast as American workman. He said that within another year he thought their productivity would exceed that of American workmen. He said they tried harder and were more interested.

In Mendoza we had received complaints that the Argentinians were not doing their work in the vineyards, - that they would work for three or four days and when they had enough money for their food and their wine, they would quit. These complaints don't seem to apply to the workmen for an American firm like Kaiser. Here is an interesting angle. It is in the American firms where the unions try to be most active. Yet the American firms seem to provide leadership and direction and incentives which make the men want to work. I had

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another report confirming this from Mr. Train, growing out of the recent experience of American firms in building the natural gas pipelines.

Mr. McCloud showed us two new models. We had driven to the plant in a heavy Kaiser car with natural leather upholstery in red. He's about to bring out a smaller model, with a European body, weighing one thousand pounds less. And a still smaller model, made from Italian dies and with Italian body, weighing two thousand pounds less. The background on these new models is in the application to the Export-Import Bank. I asked him why he was bringing out the Italian model and he explained that he was able to go to Italy and buy the dies, which originally cost $4-1/2-5 million, for $750,000. The Italian company was about to bring out a new model. But the old model is plenty good enough for the Argentine!

The Board of Directors only has three Americans. Edgar Kaiser is Chairman, and McCloud is President. Mr. Smith must be the third.

Mr. Henry Kaiser was scoffed at by American business before the war who objected to his close ties with the government; he was so frowned upon by business during the war that it was unthinkable for Paul Hoffman and me to put him on the Board of the CED, though we lunched with him once with this in mind; and of course he has received widespread publicity for his failure in the automobile business; but here he is setting the pace in the Argentine - with the three big automobile companies now belatedly following and copying. Mr. McCloud says that the value of the stock has gone up 50% in real terms, - (after discounting the inflation). McCloud is a stocky, confident,

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tough engineer. He looks like a good man to tie to. He has headquarters in Buenos Aires and visits Cordoba a day or two a week. He started with 150 American associates and this is now down to 35. He expects to reduce it still further. This seems a good example of American enterprise and industry in cooperation with foreign capital and talent. This is the kind of enterprise that Mr. Alsogaray, Minister of Economics, is trying to encourage.

(I was later told by Hickman Price in Brazil that in capitalizing on his dies and equipment, which gave him the 32% interest in Kaiser Industries of the Argentine - Mr. Kaiser "wrote up their real value 17 times." Mr. Price was formerly overseas manager for Kaiser's Toledo Company, Willy's Overland.)

* * *

At the luncheon in Cordoba I met Father Amadeo, Vice-Rector of the New Catholic University of Cordoba. Father Amadeo, a Jesuit, is the brother of the Argentinian representative to the United Nations. We chatted briefly and he explained the efforts of his University to raise the standards of the curriculum. The University has been founded under the new agreement with President Frondizi, permitting the Catholic Church to start universities. He speaks good English, wears a loose fitting black and dreary Jesuit robe, and is well acquainted with the Jesuit universities in the United States. He explained that only the Church, outside the State, was in a position to finance universities.

* * *

Sitting at my left in Buenos Aires at the small and intimate formal luncheon given for the Governor by the President was Mr. Mariano

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Wainfeld who tells me that he has been the political adviser to the President for 15 years. He sounds like one of those men with a passion for anonymity! He's confident on the outcome of the coming election. Of course only half of the seats are up. The Argentinian Constitution of 1853 is closely modeled on that of the United States. It was suspended by Peron but it has been reinstated. The government now controls about 2/3 of the seats. Mr. Wainfeld says they will lose seats in Mendoza and elsewhere - but will still have a margin. Of course the President is being bitterly criticized for his austerity program - and for his alleged "treachery". He ran with the support of Peronistas and Communists, and is now following a policy which they deem to be directly opposite to his promises. This policy will be more clearly brought out in the memorandum I'm dictating on our talk with Mr. Alsogaray, the Minister of the Economy.

* * *

At the dinner last night given by Ambassador and Mrs. Espil - I sat next to Senora De Sanchez Elia. She's the sister of the famous publisher and editor of La Prensa who unfortunately left town a day or two back and thus we won't meet him.

She says that La Prensa is owned by her brother and her mother. She compares her mother to "a national monument". Age 85, her mother drove up in front of La Prensa at the peak of the Peron regime, when Peron expropriated La Prensa, got out of her car and delivered a stump address. This was reported in TIME. She says her other brother, a younger one, is handsome and attractive, and doesn't like to work. She lives with her mother and takes care of her. She's a most attractive woman of 60 and she reminded me of Clare Luce - slender and svelt

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with a beautiful figure and lovely gray hair, very few lines in her face, excellent English and a delicate feminine air.

She surprised me by telling me that none of the people at this very fashionable dinner party knew Peron. She said her mother met him once, before he was the Dictator, when he was a Minister and was working in the cause of some charity on which her mother was working.

She is persuaded that the present stories are correct that Peron wants to get to Switzerland to put his hands on large sums of money left in the Swiss banks by Eva Peron. The Argentinian multi-millionaire, Mr. Benberg, whose great breweries here have just been restored to him, and who she says is the only Argentinian with a true international fortune - told her that under Swiss law, unless money was left in a "numbered account", the inheritor had to be fully disclosed. No, Peron can't get the documents from the Argentine government to authorize the release of the numbered accounts to him. Frondizi is on the spot on this one. J. H. has the news story on this. Peron doesn't want to be disclosed. She told a long story about two great chests of gold sent by Eva Peron on an Italian ship from Buenos Aires to the French Riviera, with armed guards in attendance, which was destined for the Swiss banks.

Stories about Peron are everywhere. Senora de Sanches Elia says that one reason Eva Peron's jewels brought such disappointing prices in Buenos Aires was that the people here did not want to be associated with their purchase. I commented that I thought the results would have been quite different if the jewels had been auctioned in New York or London or Paris. I asked her whether the jewels were themselves attractive and she agreed that they were.

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Of course stories about experiences under Peron are on all sides. Senora de Sanchez Elia could not get out of the country on her own passport. She went out using the passport of a sister. But when she returned, nobody did anything to her. Peron used torture, she told me, and there were a few charges that some people died after the torture. But he did not kill many people.

* * *

I am sure if this memorandum weren't far too long, and if I weren't persuaded that most of it is useless, I could keep on indefinitely - and make it three times the length! I'm dictating it on the chance that some of the material will be helpful to me in giving some of the flavor of these days in the Argentine for the Yearbook article.

Dictated in Buenos Aires
Attachments
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ARGENTINA

Cat. #1703
Memo #69

VISIT WITH PROFESSOR GERMANI

BY SENATOR BENTON

(Should be read in conjunction with Senator Benton's memo on his meeting at the University of Buenos Aires with Professors Caviolo, Moringo and Chapman.)

Professor Silvert made very few suggestions on people with whom we should visit. One he urged upon us was Professor Gino Germani, head of the Department of Sociology at the University of Buenos Aires. I received a very different impression of the University and its students from Professor Germani - than from others with whom I've been chatting. In the first place, Professor Germani, manifestly a most intelligent and thoughtful man, says that not only is he a full-time professor but so too are most if not all of his department. I think he has some 40 members of the department, though I cannot now exactly remember. But most of them occupy two jobs - one in teaching for which they are paid, and the other in research for which they are not paid. Most are quite young, under 30 in most cases. His department is a new department. The university has had a so-called Chair of Sociology for decades, perhaps for 50 years or more, but the Chair has recently been broken down into several sub-divisions.

Professor Germani defends the students in his department. He says that the visiting professors from abroad say that his students stack up well with students in other countries.

He is hopeful for American support for research projects. The Rockefeller Foundation has just provided $35,000 for a study of the impact of immigration into the Argentine. He says that from 1900 to 1925, seven out of ten people living in Buenos Aires were foreign born.

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From some other source, he has funds with which he is launching a survey into immigration into Buenos Aires from the rural areas of the Argentine.

Those who came from Europe, he says, were mostly leftists, socialists, Marxists, etc. He says that this hard-core group from Europe prevented the development of a good, legitimate left wing or radical party of Native Argentinians. When the native rural elements moved to Buenos Aires, they did not find such a native party to join. A million and a half such rural immigrants have moved to Buenos Aires since 1930 - and have not found a healthy democratic left wing Argentinian party waiting for them. He thinks this must be understood for a comprehension of what's happened in Argentinian politics, including Peronism. He warns me that Argentinian politics are "Machiavellian"!

(Speaking of the Rockefeller gift he said that present laws discourage gifts from internal sources including rich individuals; he is referring to the inheritance laws and other laws.)

The "internal commotion" now going on he described by the word "contintes". He says that strong military action against the small bombings and other disorders may increase the number of blank ballots on March 27. Otherwise, unless these blank ballots are provoked in some such manner, he thinks they will not exceed 30 percent. Like General Aramburu, in his statement to Governor Stevenson, Professor Germani favors proportional representation. Also like him, he favors the legalization of the Communist and Peronist parties. This latter would put an end to the blank ballots and would bring everything into the open. Professor Germani says that by far the most important issue today in the Argentine is to maintain democratic

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institutions. He qualifies this with the phrase, "At least the semblance or fiction of them".

Professor Germani tells me that he thinks that 40 percent of the Argentinians should today be classified as "middle class". But he immediately adds - "This group was at least 25 percent in 1900". However, he adds further, the middle class group today in Chile is only 20 percent.

Professor Germani tells me that the salaries of university professors are larger than those previously reported. They are paid 13 months for 12 months tenure. Adding everything together, the salaries for the full-time professors run about $300 a month. When I asked him about the report at the Bariloche Physics Institute, that the salaries run only to $200 a month, he explained that this was an Institute and not a University. When I asked him whether a professor could live on $300 a month, he said this depended on whether he had a satisfactory house which he had secured early enough and at a reasonable price. He says that if the professor has a house, he can get along on the $300 - which is at least comparable to twice that amount in the United States.

Professor Germani speaks of Frondizi's problem because he ran on one platform and with one policy, and is now supporting another. He suggests that Frondizi is just using Alsogaray for his own temporary purposes. (Machiavellian!) I was not clear whether he was in sympathy with present government economic policies - but I was very clear that he was not wholly in sympathy. His fingers are badly crossed! - though he is acutely aware of the grave dilemma and the acute problem caused by the inflation.

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From some other source, he has funds with which he is launching a survey into immigration into Buenos Aires from the rural areas of the Argentine.

Those who came from Europe, he says, were mostly leftists, socialists, Marxists, etc. He says that this hard-core group from Europe prevented the development of a good, legitimate left wing or radical party of Native Argentinians. When the native rural elements moved to Buenos Aires, they did not find such a native party to join. A million and a half such rural immigrants have moved to Buenos Aires since 1930 - and have not found a healthy democratic left wing Argentinian party waiting for them. He thinks this must be understood for a comprehension of what's happened in Argentinian politics, including Peronism. He warns me that Argentinian politics are "Machiavellian"!

(Speaking of the Rockefeller gift he said that present laws discourage gifts from internal sources including rich individuals; he is referring to the inheritance laws and other laws.)

The "internal commotion" now going on he described by the word "contintes". He says that strong military action against the small bombings and other disorders may increase the number of blank ballots on March 27. Otherwise, unless these blank ballots are provoked in some such manner, he thinks they will not exceed 30 percent. Like General Aramburu, in his statement to Governor Stevenson, Professor Germani favors proportional representation. Also like him, he favors the legalization of the Communist and Peronist parties. This latter would put an end to the blank ballots and would bring everything into the open. Professor Germani says that by far the most important issue today in the Argentine is to maintain democratic

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institutions. He qualifies this with the phrase, "At least the semblance or fiction of them".

Professor Germani tells me that he thinks that 40 percent of the Argentinians should today be classified as "middle class". But he immediately adds - "This group was at least 25 percent in 1900". However, he adds further, the middle class group today in Chile is only 20 percent.

Professor Germani tells me that the salaries of university professors are larger than those previously reported. They are paid 13 months for 12 months tenure. Adding everything together, the salaries for the full-time professors run about $300 a month. When I asked him about the report at the Bariloche Physics Institute, that the salaries run only to $200 a month, he explained that this was an Institute and not a University. When I asked him whether a professor could live on $300 a month, he said this depended on whether he had a satisfactory house which he had secured early enough and at a reasonable price. He says that if the professor has a house, he can get along on the $300 - which is at least comparable to twice that amount in the United States.

Professor Germani speaks of Frondizi's problem because he ran on one platform and with one policy, and is now supporting another. He suggests that Frondizi is just using Alsogaray for his own temporary purposes. (Machiavellian!) I was not clear whether he was in sympathy with present government economic policies - but I was very clear that he was not wholly in sympathy. His fingers are badly crossed! - though he is acutely aware of the grave dilemma and the acute problem caused by the inflation.

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ARGENTINA

Cat. #1703
Memo #69

March 17, 1960

INTERVIEWS DEALING WITH THE UNIVERSITY OF BUENOS AIRES AND ITS STUDENTS - BY SENATOR BENTON

(Meeting at the University of Buenos Aires with three professors: Professor Gavioli, physicist, brother of Ambassador Gavioli who represents the Argentinian government in escorting us; with Professor Morinigo, philologist, who is about to go to Urbana for a spell as a visiting Professor at Illinois; and Dean Chapman of the School of Business Administration and Department of Economics.)

I visited with three professors of the University while Governor Stevenson conducted the kind of affair in a large adjoining room - to which we've grown accustomed in our visits to the universities. (Several score of professors and students ring the room and ask questions of the Governor.) Because we have learned so little from such meetings, we have found them in general such a waste of time, I asked Ambassador Gavioli to arrange a private visit for me with three or four outstanding professors who could speak English. I wanted to talk to them, among other things, about the damning reports which I've had in the last 36 hours from Mr. Penedo and Mr. Patterson about the University of Buenos Aires and its students.

Professor Gavioli spoke with passion about the general worthlessness of the student body. He says there are 68,000 students "and only two or three workers." He spoke of his own training in Germany and at Johns Hopkins as a young man. He said, "Many of the students were so poor they could only afford to get their hair cut every three months; yet they attended classes and they worked." He says that the Buenos Aires students, within six months after entering, feel that they have a right to a good living - that their objective is not to

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learn, but to get money for themselves - that all of them are well dressed.

He said with a sweeping gesture, "These children are being trained to become social parasites and to take over the government!" He reports that one-third of them right now are getting money in various forms of grants and scholarships from the University. Another one-third have government jobs; about one-tenth have private jobs. The students have almost universally become "smart boys." They feel that society owes them a living. In Uruguay, says Professor Gavioli, the situation is even worse; in Brazil it is better.

(I am reminded of Yale in my undergraduate days when most of the students felt that the smartest trick was to do as little work as possible - "to get by" with minimum effort - when the general goal was to avoid the professors and the taint of intellectual endeavor. However, attendance at class was compulsory and indeed so was attendance at Chapel!)

Professor Gavioli complained bitterly because it is impossible to get rid of students who are no good. He's just failed one student for the sixth time and expects him to enroll again for a seventh try. He complains of the fact that there is no compulsory attendance.

Professor Morinigo smiled tolerantly and indicated that he was at least in partial disagreement. He spoke of 2,000 students who are teaching the primary grades and he said, "This takes work." Contradicting himself, Professor Gavioli agreed and commented, "These are the best students."

Professor Gavioli says that the job in higher education that must be done in the long range interest of the Latin American

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countries cannot be done through the State universities. He himself is trying to start a private college and is seeking 65 million pesos. He spoke with enthusiasm of a new "Technical Institute of Buenos Aires" which is privately controlled and which is being founded this year. When he gets his private college rolling, he will later add special graduate departments in agriculture, metallurgy, and hope-fully, in economics.

Professor Gavioli condemned the new Church universities or colleges. Three have been started under a new law in which the government has agreed to "recognize their degrees." The recognition of the degree is essential for a career as a teacher or lawyer. As long as the government refused such recognition, there were no Church universities; the students wouldn't attend. Professor Gavioli said the Church wants to train its own lawyers to defend its viewpoint; that the teaching at these universities is Thomas Aquinas - (Mr. Hutchins please note) - together with much outdated material - with no chance of any training for engineers, or in science and technology. (Professor Gavioli plans no law or medicine at his new college!)

Dean Chapman joined us to tell us that Dean Courtney Brown of Columbia was here in Buenos Aires visiting the University last week. Dean Chapman is working out a project with Columbia along exactly the lines I described in my report of my interview with Mr. Patterson, the kind of project which Mr. Patterson developed in Santiago for the Department of Economics at Catholic University. This project is to cover the development of faculties in business administration and government administration, or at least one of them. These are two of

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the six fields Mr. Patterson wants developed as major departments or schools. Sixty million pesos have been allocated for the U.S. for a program in five fields and Dean Chapman expects at least one-fifth of this sum - and perhaps two-fifths if he is prepared to move ahead while others aren't. This money will come through Law 480, growing out of the sale of surplus farm commodities, as I understand it.

Dean Chapman approves enthusiastically of the Santiago plan. He already has four of his students or professors at Columbia in Business Administration. They've agreed to return to teach for a minimum of two years. I told him that I had told Mr. Patterson that I felt that engineering could be well taught - and that anybody who went to Cal Tech and took his degree in engineering certainly should have the educational equipment to develop as a good engineer. (Professor Moringo's son is 24 years old and an instructor in physics at Cal Tech and won't come back to the Argentine!) But I had told Mr. Patterson that I questioned whether Business Administration could be taught with equal skill - and equal hope of results. Dean Chapman said that one of his four men took this attitude when he left for Columbia, to the point where the Dean wondered why he'd given him the Fellowship. But he came back with his head hanging, apologetically, saying that he'd learned a lot. I told him of my recent conversation with Ted Yntema, who tells me the reasons the best schools of business in the United States are now doing a good job is that they are teaching the liberal arts to students who failed to learn them at their undergraduate colleges - in other words they are teaching mathematics and English composition and science and economics! Dean Chapman

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seemed to agree. Professor Gavioli later told me that most of the students in economics are at night school.

(Mr. Frondizi told the Governor and me that the University of Buenos Aires only had five full time professors when he took office but now has more than one hundred, including a large number of full time professors and associates in the Medical School; He's aiming at a full time faculty in the Natural Sciences; but he said that he was an exporter of professors, most unhappily; Cuba and Venezuela pay much better salaries and have taken many of his professors, wholly apart from the erosion elsewhere.)

I told the three professors that if I were trying to remedy the financial plight of the Argentinian universities, and hoped to get money from private individuals, one of the first things to which I would apply myself would be a change in the Argentinian law which compels everybody to leave four-fifths of his total estate to his children, whether he wants to leave money to his children or not! The idea of repealing this law struck the three as novel. Mr. Chapman took to it at once! At breakfast the next morning with Professor Cian Caglini, regarded by many as the leading scholar in the field of electronics, I laughingly told him of this part of the conversation and it amused him greatly until he started to think about it when he said that he thought there was a lot to it. I told him that the big U.S. foundations were more likely to help universities that were trying to help themselves! - and that if I were the Ford or Rockefeller Foundations thinking of giving money to the University of Buenos

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Aires, I would at least take a good look at this law! Its repeal would hardly fail to stimulate bequests.

The foregoing material must of course be interpreted together with my two previous memos here in Buenos Aires dealing with the University and its students - and also together with Mr. Silvert's memorandum which I've mailed - and with other material which I am assembling from Mr. Patterson and elsewhere. Professor Gavioli is sending some material. Other interviews are to follow which deal with the University.

* * * * *

Dr. Ciancaglini, the brilliant young physicist whom we met at the Atomic Institute at Bariloche, came in for breakfast and described his life to me. He works all day at the Atomic Energy Institute, from early morning until 5:30. He then goes to the university and works until 10:00 o'clock. He has two children whom he never sees. He tries to keep up with his field of study on Saturdays and Sundays. He's been able to take no vacation this year. He recently described the financial problem of the scholars, (which I covered briefly - growing out of my talk with Professor Melvin at the Bariloche Institute) - to President Frondizi of the Argentine. He thinks President Frondizi understands it. He told Frondizi that there was no hope for real progress or recovery in the Argentine unless the scientists and universities were supported. The President says that this must wait, along with most everything else. Professor Ciancaglini is hopeful. The government is beginning to give a bit more help to the association of scientists.

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Dr. Ciancaglini says that electronic development is starting here in small ways - "because the manufacturers save money."

Most importantly, Professor Ciancaglini does not agree with Professor Gavioli in his wholesale and blanket indictment of the students. Professor Ciancaglini says that "perhaps my students in electronics are better, but certainly lots of them are workers." He admits freely that the entrance standards are much too low but points out that the students have received very bad preparation in the secondary schools. (This was the argument used by the Public Relations man at the University of Mexico.) He admits that there should be techniques by which they could be dropped and winnowed out. He concedes that the standard of the curriculum needs a major face-lifting. And of course he is unhappy about the large numbers of students who are "the smart boys" as Professor Gavioli described them, and who are in for the free ride.

Nor does he share Professor Gavioli's views that the only constructive course is to start a new private university. He thinks the University of Buenos Aires can be built up and should be built up. However, he agrees that the starting of private universities, which can help set standards, would be greatly beneficial to the country.

* * * * *

I have three pieces of literature in Spanish which have arrived from Professor Gavioli and I'll see if I can get an understanding of them from Dr. Smith. If I can't, and I deem it to be unlikely that I can, I shall send them along for perusal in New York. I'm

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persuaded that I want to devote a major section in my article to the role of the Latin American universities and their potential importance. Many of those quotations from the professors will be helpful.

* * * * *

Last night at the dinner given by Minister of the Interior, Mr. Alfredo Vitolo, I sat next to Rector Frondizi of the university. He, of course, thinks that Mr. Pinedo, Professor Gavioli and Mr. Patterson are much too tough on the students. Indeed he takes the position that he likes to have the students elected to his governing Council. He says this gives him a chance to persuade the students on the policies of the university. They in turn persuade the student body. He says, "I would much rather have them inside, working with me, than outside working against me." I told him that I thought this probably depended on the skill of the Rector - that I could see that he had to have great political talent! I report this to show that the problem here is two-sided. A great student body of 68,000, the size of the student body at the University of Buenos Aires, has political influence. It's a threat to the politicians as the governor of one of the provinces in Colombia pointed out when he advocated unabashedly the legal and political role of the students at the Colombia's universities. Further, the student body is frequently very healthy politically; it will stand up against dictators and will fight in the streets, on occasion, against a leader like Peron - when other groups may be supine. Rector Frondizi's point shows that the argument about the legal power of the students is a two-sided one. I, of course, favor the structure at the University of the Andes,

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in Bogota, described in the memorandum of our visit there. But if a Rector is politically talented and can handle the students, I can imagine times and places where it might indeed be better to have them on the council than to have them outside fighting.

I talked to the Rector at some length about our EBF chemistry and physics series. He is deeply interested and wants to know more. I told him that it might be that the Ford Foundation might help him secure prints of the series, particularly if he would lay out some kind of experimental teaching program. He wanted to know if they were suitable for freshmen in college and I told him I thought they were made for students of 16, 17 and 18 years of age. I suggest that Mr. Ladas or Mr. Mitchell write him at once and that our representative be in touch with him at the right time. I told him that I didn't think the cost would be too great to put them into Spanish.

Ambassador Beaulac was sitting on the other side of the Rector. The three of us talked about the future development of television here. Right now it is so new that most anything can be done with it. I told the Rector that if I were he, I would explore the possibility of taking on a TV station for the university and operating it on a subscription basis. This seemed to appeal to him greatly. I gather he's going to look into it. I told him that available teaching films would probably provide programs of a couple of hours a day, at least in the early period, if he could get the money for the Spanish sound tracks.

Frondizi is a philosopher. He's translated two books into Spanish from Whitehead. He was a visiting professor at Yale for two

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years during his exile so he must have solid academic standing. He was also at Harvard. His English is good. He's a brother of President Frondizi. He looks like an enterprising and imaginative leader. I wish we could get some significant experiment started, under top auspices, here in Latin America, on the use of our films. I'm positive that the only conceivable chance for money for films, in many countries, is through American foundations or through Point Four, Public Law 480, or some other form of American underwriting. I urge John Howe to talk to Mr. Patterson about this when he sees him. Note the fact that Patterson is allocating 60,000,000 pesos to the university. Seemingly Patterson has money under Public Law 480 and perhaps lots of it. I don't see why it couldn't be allocated to a list of our physics films as well as to "Business Administration." There are many angles of this kind that need careful exploration in Latin America.

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ARGENTINA

Cat. #1716
Memo #79

3/15/60

VISIT WITH MR. ALSOGARAY, MINISTER OF THE ECONOMY
IN ARGENTINA. GOVERNOR STEVENSON AND SENATOR BENTON

Minister Alsogaray personifies the new economic policy of President Frondizi's administration. He is an engineer, a former army officer, perhaps 45 to 50, energetic and determined. He made a fortune in aviation after leaving the army; he is very sure of himself and his self confidence is contagious. He opened our visit by saying he would give us a brief report on the political implications of moment in the Argentine today. He said that to understand these clearly it was necessary to go back to September '55. He explained that the Peron dictatorship was not a normal South American dictatorship but "a collectivist dictatorship like a communist dictatorship" - that every sector was under the control of the state - and that this meant not only state enterprises but full state intervention everywhere including control of the labor unions. Yes, said Minister Alsogaray, "Peron controlled everywhere - TV - the press, the unions - and during the twelve years of his administration, the Argentinian people succumbed." The slogan of Peron - his philosophy was called "national socialism."

When the revolution took place in '55, lead by the armed forces and the people, it was due to moral revulsion - a moral protest by the armed forces and the church which were tired of corruption.

But the Minister explained that "clever people of socialist ideas" kept the revolution of '55 from changing the economic and social ideas of Argentina between '55 and '58. Indeed, he said,

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there was very little change. Everything stayed much the same as under Peron. In 1956, Mr. Alsogaray was the Minister of Industry and he fought the ideas of the Peron system but he failed. Then he organized a small free enterprise party and secured a few votes. He founded a magazine which became important. At this time, President Frondizi was in the opposite camp. But after President Frondizi was elected, he changed - after his inauguration on May 1st, 1958. The President since then has settled the oil dispute by making a deal with private oil companies to develop the Argentinian fields. He has settled the dispute with the American Foreign Power Company. He has suffered criticism of course - and pressures - from the Peron groups who continue to favor inflation. September in '58 was "D Day" for the Argentine when President Frondizi changed the whole Argentinian system to one of free enterprise. On December 29, 1958, he eliminated currency and other controls. He has now established free enterprise in the economy except for rent control. (Some of this is left..) Now there is a complete free market on currency.

Although President Frondizi came to office with the support of the Peronists, the communists and other collectivist groups - he has now rejected them all. By mid-1959 this reversal produced great confusion. Thus a crisis developed in June of '59. At this point he changed top Ministers and Alsogaray became the two key Ministers - the Minister of Economy and the Minister of Labor. Under Alsogaray are also the Secretaries of Agriculture, Treasury, Finance - and the Central Bank. There are about twenty Ministries in all but only eight top Ministers report to the President.

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The Minister wants us to understand that the big effort has not been in the eighteen months since President Frondizi was elected, but in the last eight months since Alsogaray himself was appointed Minister - since June of '59. At this point he showed us the set of charts attached. I think my notations will make these clear. They are a remarkable lot of charts, even though the Minister said that the statistical base for them is sometimes inadequate. He presents such material in a weekly television program. He feels his next big job is to persuade the people of the Argentine to a full and all-out support of his policies. Central to his objective is a campaign to bring down prices. (The following morning he took the Governor with him to visit five or six department stores and major markets, a part of his publicity drive to bring down prices.) The Minister wants to emphasize the values of competition. He is proud of the fact that the pipeline is opening for oil and gas. (Described in a letter from Mr. Train.)

The Minister concedes that the economy has suffered from strikes and other difficulties but he says that today everything is going well "except for small acts of terrorism". He feels that the Argentine is now at the end of a difficult period. He says the people are beginning to realize that his way is "the only way". The Argentine has no unemployment.

Unhappily, the Minister has no GNP figures because the statistics are all cockeyed due to the inflationary spiral. Indeed, he laughingly told us that Peron regarded "statistics as a top state secret"! He says that his brother went to jail for giving out Peron's statistics and stayed in jail for four years.

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The Minister does not feel that the country needs new loans or finances from the United States. The important need is to refinance short term loans into long term. He says that the Export-Import Bank has given the Argentine $10 million and another $15 million is assured. My impression is that this last credit is for small Argentinian enterprises which he wants to encourage in line with his general program on behalf of free enterprise. I am dictating this memorandum some time after the interview and if I make this point in my article about the Export-Import loan, it should be rechecked.

Dictated in Rio de Janeiro, Brazil
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ARGENTINA

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Memo #91

3/26/60

CALL UPON MINISTRY OF EDUCATION IN RIO DE JANEIRO - DR. ANISIO S. TEIXEIRA, DEPUTY ADMINISTRATOR AND DR. FREDERICO RANGEL, HEAD OF DEPARTMENT OF ENGINEERING AND TECHNICAL EDUCATION

Dr. Teixeira explained that in 1930 there were 1,800,000 students in Brazil's elementary schools; that in 1960 there were 5,500,000; but that there should be 7,500,000 in 1960 - if all youngsters from 7 to 11 were to be in school.

He said that most of the elementary schools have no books to be read. They desperately need libraries, "a much higher priority on books." And he added that reference books were the most important books needed. Thus he said that he was most enthusiastic about our projected Brazilian Encyclopaedia. He said he would like a set in every school. (I later told Alfredo de Sa that I thought it would be good business for us to waive royalties for such sets, and for him to waive all profits - in other words - to turn over our plates to the Brazilian government for a mass printing of sets to be installed in these schools which have no books; such sets would teach the students to use encyclopaedias and would make them want them as adults, and make their parents want them now.)

After the books, says Dr. Teixeira, comes the teacher training. Only 2,800,000 of the 5,500,000 students have teachers trained at the secondary level; 2,700,000 have teachers with only primary training. The great expansion of students has resulted in "deteriorated standards for teachers."

Dr. Teixeira says that the new Britannica in Portuguese is "one of the most important things for the intellectual development of

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the country" - that can be imagined. And he says that the need for the purchase of the set for each and every school is more important even for the teachers than for the students. Of the 180,000 elementary schools, he would be happy if the set can be bought for 90,000 - the bigger ones.

Dr. Teixeira described to me his new Center in Santiago and I am attaching a pamphlet and his own notations upon it in pencil. This folder and his notations must be studied and translated. I marked the wing on the cover at the left which he told me was his new "Institute of Audio-Visual Studies". He says that this is financed by Point 4, and I think he refers here to the whole building and not merely to the A-V section. The building is 200 meters long and is just getting under way. It is designed to train teachers with advanced courses.

Dr. Teixeira explained that motion pictures were only suitable to the advanced schools because of the lack of electric power in the rural elementary schools. Most of the 3,000 to 3,500 secondary schools are in cities and have electricity.

Dr. Rangel broke in to explain that he was in charge of the engineering colleges. These are only growing at the rate of 7% a year which is roughly the rate of growth of the CNP in Brazil. They could take more students but they cannot find more qualified students. They are thus limited "by the availability of good students."
Dr. Rangel gave me what he said was an old slogan, "Engineering is physics plus good sense." The Brazilian students don't get the physics. And this of course leads me into a discussion of our Dr. White Physics Series.

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The reason the secondary school students don't get adequate training, says Dr. Rangel, is that most all of them are on two shifts and indeed a high percentage are on three shifts - from 7 to 12 and from 12 to 5, and at night. They don't have room in their curriculum for the new subjects - or even to do justice to physics. They have no time "for laboratories or for enrichment." Dr. Teixeira broke in to say that the Brazilian education system is now roughly where the U. S. system was in 1890. But he showed me a table (attached) which brings out the fact that in Sao Paulo - all the Sao Paulo figures are about double the averages for the country as a whole - there are about twice as many secondary school students - and indeed there are three times the number, percentagewise, of university students.

The United States provided $20,000 for equipment for the new AV Center in Sao Paulo. With this equipment, Dr. Teixeira hopes to produce films and filmstrips. The Brazilian government spent about 5 million cruzeiros to match the U.S. contribution. Dr. Teixeira thinks that he will have to make his own films in History and Geography - but he says that he should possibly buy the films in Science - and I am not sure that he used the word "possibly". It was at this point that I suggested that the cheapest way for him to get the Science films would be to bring our negatives into Brazil, to add Portuguese translations and to print them here.

To dramatize the desperate state of Brazilian educational budgets, Dr. Teixeira said that the Brazilian budget per pupil per year at the primary level is only $9. At the secondary level it is $35. At higher education it is about $300. Each adult in Brazil must

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educate four children - in contrast to France, where each adult must carry the load for only one.

Dr. Teixeira expounded on the fact that Brazil must have education if it was to remain a democracy. If it is to maintain its defense, he says, it must have education. Indeed, he said that education in South America "should have the highest priority of all." He said the great need is "to develop a climate of opinion towards this end." He explained to me that this "should be a high political aim."

Dr. Rangel, which Alfredo de Sa tells me is a Portuguese name, wrote out in pen and ink the following statement while we were talking:

" 1) Brazilian High Schools are too standardized, too crowded and without time and space to pay attention to films or anything new.

2) There exists in Brazil, however, a dissatisfaction with science teaching, on the part of parents, boys, engineers, industrialists and so on. A market can be developed if the right promotion is done. I would recommend a <u>broad</u> promotion, to hit education by repercussion. Perhaps it would be fruitful to start through schools of engineering and the federation of industry."

This whole meeting was a very moving one for me. When I later praised Dr. Teixeira to Alfredo de Sa, he told me that he had asked him to be the editor of our new encyclopaedia, and I deem this to be high praise by Alfredo. Dr. Teixeira has many jobs in the government, and is very highly respected here in this community. He turned Alfredo down.

Dictated in Rio de Janeiro, Brazil
Transcribed in New York City

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Memo #92

March 5, 1960

VISIT WITH RAUL PREBISCH

(Publicized by some as the "Jean Monnet of South America", Prebisch is head of the U.N. agency ECLA located in Santiago; he is a well known Argentinian economist and former head of the Central Bank in the Argentine.)

I told Mr. Prebisch that he was as famous as the Andes. Five or ten friends of mine had told me that my most important single mission in Latin America was to visit with him. He is a singularly handsome and attractive man of around 60. His English is very good. His eyes are better. And his wife is beautiful. Governor Stevenson and I called on him at his office but I also had dinner with him twice at his home. I shall first report his presentation at his office. This of course was the official point of view of ECLA, subsidiary and offshoot of the U.N. Prebisch became head of ECLA a year or two after it was established. Its genesis was the strong feeling of Latin America that a special organization was required to study Latin America's special economic problems. There are references to this in several other memorandums that I've written. In one meeting, dealing with Operation Pan America in Brazil, Governor Stevenson commented, "I've heard all this before," - and he was referring to the genesis of ECLA in U.N. discussions.

At the meeting in ECLA's office, Mr. Prebisch talked eloquently for an hour and a half or thereabouts. He explained ECLA's great concern about the slow rate of economic growth in Latin America. This is only running a trifle more than the rate of population growth. It isn't even averaging one percent per capita per year.

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Back in 1945 to '55 it averaged 2.7 percent. This higher rate, says Dr. Prebisch, was due to "extraordinary factors" which have disappeared.

Mr. Prebisch's story centers on the fact that Latin America now needs a vigorous program of economic development.

He says that private initiative is not enough. It cannot in itself respond to the Soviet challenge. (Mr. Prebisch states flatly that communism has been transformed into "a very effective method of economic development".)

Mr. Prebisch seeks ways to transform private initiative into a powerful medium of development. He thinks this can be done if private initiative is complemented by "a system of planning" - a system that doesn't in any way interfere with private initiative - but indeed will give it stimulus. He contends that it's ultimately possible for Latin America to rival Europe or the United States through unleashing the forces of private initiative.

Mr. Prebisch points out that the needed "economic planning is not always easily accepted"! (At one of his press conferences Governor Stevenson said that he was one North American who was not afraid of the word "planning".) Mr. Prebisch stressed that in many Latin American countries "another way of thinking prevails" - the feeling which has been ingrained that "the free play of economic forces" will do the job. In such countries "economic planning is not always easily accepted". He explained, and he understands, the "natural reaction in some quarters against too much government". Further, he understands the political forces which "want to keep things as they are".

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Mr. Prebisch says that too many people "state intervention means agrarian reform, taxes, and structural changes in the economy which will unleash great new social forces". And of course many don't want changes of this kind. Thus such people line up aggressively against the need for planning and the need for state leadership. In opposition to these people, Mr. Prebisch takes the view that the need for such is more and more evident. He speaks of the growing pressure of the masses. He speaks also of "the feeling of frustration" in the younger generation - those who are inevitably destined to be the leaders. He speaks of "the dynamic elements" which are frustrated by the lack of opportunity due to the present lack of economic growth.

Mr. Prebisch points out that a greater rate of economic growth will provide greater opportunities to such dynamic or younger groups. He says that the students and their discontent are "not an isolated case" - they are indeed "a deep-seated phenomenon" - and he suggests that they are to be offset by a more rapid rate of economic growth.

Mr. Prebisch reminded us that not long ago the students "fought dictatorships for freedom". Now, he says, they are fighting for "what to do"? The students ask, "What is offered to us in contrast to communism and 'its system of ideas'"?

Mr. Prebisch feels that we of the free world must build our own "system of ideas" - with driving power which will help "channel the emotions of the younger generation".

Mr. Prebisch asked Governor Stevenson and me, "Is this possible?" He answered his rhetorical question by saying, "I'm persuaded

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that it is". Communism may seem very appealing on the economic side, he contends, but it is very weak on the political side.

In his discussion of communist propaganda he said, "If we analyze communist propaganda, everything which they promise is what we of Latin America should be doing: 1) industrialization; 2) land reform; 3) social reform through taxation of the rich; 4) laws to curb monopoly. All of these you have achieved in your country!"

Mr. Prebisch suggested that all of these "flags" we have lost, at least temporarily, to the communist propagandists - and these "flags" are exceedingly attractive to Latin American intellectuals.

Mr. Prebisch says that the communist propaganda helps persuade the men in the streets of Latin America that the United States is against their industrialization. He says that the men in the Chilean streets do not know that the Export-Import Bank is responsible for the steel industry of Chile. He told us that our U.S. policy was "dual". He feels that we have agreed on the need for the industrialization of Latin America very late - but he says that fortunately we have indeed supported his idea of the common market (which the communists opposed).

Mr. Prebisch criticized Jack Viner and other University of Chicago economists who visited Brazil and other Latin American countries arguing against their industrialization on "the old theory of international trade" - to wit, that every country should produce what it's best qualified to produce, and exchange it with other countries. (Mr. Prebisch complained about the International Bank which

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has never given a penny to the iron and steel industry of Latin America - because the cost of production is higher than in the United States - and because the Bank does not believe in heavy industry in Latin America.)

Mr. Prebisch asked the rhetorical question: why is the rate of growth weak in Latin America? He answered by saying, "1) the rate of savings are low; 2) the land tenure system is a terrible handicap; 3) the continent suffers from inefficient use of manpower and lack of trained manpower; and 4) everywhere there is misuse of capital". He added, the Latin American countries are "20 small watertight compartments".

Mr. Prebisch then proceeded to discuss the rate of savings, his point number one on the low rate of economic growth. He says the Latin American countries could save much more. He asked us "to look at the way the high income groups live". They have "all the advantages of the past and the present". Mr. Prebisch thinks that taxes should be enacted and enforced to take income from the rich groups - and use the revenue for government-designated aims. (Of course I emphatically agree. Any man in a high tax bracket who visits Latin America, from the United States, can hardly fail to feel resentful of the way the rich seem to avoid taxes and yet want grants and loans from the United States where people of comparable wealth yield most of their income to the government.)

Mr. Prebisch emphasized that Latin America needs a graduated income tax that is collected. He doesn't ask for taxes on lower incomes, - or on money productively invested. He seeks taxes that

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are much more effectively geared to encourage savings - and for social aims - and for incentives.

Mr. Prebisch said of course that foreign capital is indispensable, and indeed it's necessary to accelerate the rate of savings. He explained that Latin America must take advantage of every possible method to step up savings - and that this in turn will help attract foreign capital. He stated that an increased rate of savings is the "cornerstone" to Latin America's economic development. He emphasized, however, that foreign capital can't possibly be sufficient in itself. He said, "If we set a goal of three percent a year for our economic growth - this will help us estimate the amount of foreign capital we need". He hastened to add, "Of course we cannot assume that any program is automatic".

I asked him about the psychological factors - the psychological impact on foreign investors - such for example as Brazil with its rapid inflation where only one percent of the people were made to pay income taxes. Mr. Prebisch replied that the problem as posed by me, was political. He said, "Not one single country in Latin America has passed income tax laws comparable to those of the United States".

Mr. Prebisch took the position that many problems related to foreign capital were indeed psychological: they were "an attitude". Thus he suggested that the International Bank puts up many obstacles. It does not foster the spirit of reform which is urgently needed. It has no "spirit of promotion". It delays and "waits such a long time. Thus, says Mr. Prebisch, it is five years since Peron

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fell in the Argentine and there has not been a penny for the Argentine from the International Bank. (I told Mr. Prebisch that I thought he was complaining of the fact that the bank is run by bankers! - and indeed I do think that this is precisely his complaint.)

Mr. Prebisch said that in 1951 the bank told the government to take unpopular measures to fight inflation. Then the Bank said, "Let us wait and see the success of these measures". Mr. Prebisch thinks this formula is wrong. He feels the bank cannot expect the job to be done without simultaneous and major investments. One reason the bank's policy has failed is its lack of investment. (I'm dictating this memorandum some time after the interview, based on my notes and I do not recall exactly where Mr. Prebisch claimed the policy failed.)

Mr. Prebisch is emphatic that the bank should change its attitude and should seek to help creatively develop projects for investment, instead of merely sitting back and waiting for them to be presented. Mr. Prebisch thinks we need two types of institutions. One may be a bank. But another must be a promotion-minded institution. (I suggested that Paul Hoffman might be a symbol of what is needed.)

Mr. Prebisch said, "My first point is the amount of the lending; my second is the attitude; my third is the need to strengthen Latin American entrepreneurship and the need for more foreign capital here".

Mr. Prebisch thinks that if more credit is available in Latin America, the consequences will be an enormous boost in entrepreneurship.

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He points out, as has Governor Stevenson, that there are some things that only foreign capital can do. And here of course is a great chance for Latin American entrepreneurs. Why can't they get credit to develop power plants? Here the technology is very well known. Why doesn't the United States seek to strengthen private initiative in Latin America on power plants? (I happen to think this is a bad example.)

Mr. Prebisch told us that a development corporation to encourage entrepreneurship in Turkey had worked very well. It was small. Money was put up by the International Bank and by the Turkish government. Governor Stevenson interrupted to ask, "Aren't you proposing government credit for private use? Are you suggesting this in small chunks as well as big chunks? And what interest rate do you propose?"

Mr. Prebisch re-emphasized, in line with the recent signataries setting up his projected common market, that there is an important role for private capital. He said the public capital is needed to help develop private firms - or that otherwise there would be "an imbalance" which in turn would have political repercussions. Mr. Prebisch suggested, "Here is a type of flag to be waved by the United States". He wants the new Development Bank oriented towards such a purpose. He also suggests this goal for the Export-Import Bank and the International Bank:

If the United States wants to develop the economies of Latin America - Mr. Prebisch thinks he is outlining the right emphasis.

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Governor Stevenson asked whether he felt that U.S. policy had placed "too much emphasis on making Latin America safe for American business - instead of safe for Latin American business". Mr. Prebisch said that it was indeed true the United States had inherited the British 19th century attitudes.

Mr. Prebisch added that he can't possibly exaggerate the importance of United States policy in the development of the economies of Latin America. - He said that United States economic policy "can play the greatest political role".

Mr. Prebisch asked the Governor and me, "Why don't progressive elements here in Latin America believe in the United States? Why doesn't the United States attract them?" He reminded us that these elements had believed in FDR, but that unhappily their faith had been lost. He hastily added that "many progressive people do indeed want to believe in the United States - they don't want to go to communism - but they don't know what to do".

Mr. Prebisch told us that such groups largely want to do those things which we have done in the United States - they want to control their own monopolies - they would like to have strong labor unions - they are eager to foster land reform - they would like our system of taxation.

Mr. Prebisch asked why, instead of preaching these things which we do indeed stand for in the United States, why we preach the importance of "foreign private initiative". Manifestly he thinks such preachments are not enough.

Mr. Prebisch told us that his organization, ECLA, isn't always understood in its view that planning is needed. President

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Lleras Camargo of Colombia sees the issue but he may fail in promoting it because he may not have his people behind him. One handicap to the achievements of Mr. Prebisch's goals is that the United States "does not believe in planning and is not contributing real experts to help". He wants a pool of U.S. experts. He needs our experts on land reform and other key issues. He emphasized to Governor Stevenson and me that our leadership in such planning will appeal to the youth of South America.

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At our meeting was Mr. Santa Cruz who represents the U.N. in Chile. He reminded us that the most critical Latin American problem is agriculture. He says that the population is growing much faster than the production of food. Per capita, food production in Chile is now lower than before the war. He says that the problem calls for "bold action and technical assistance". He says Chile needs a program of education and social reform in its rural areas. (Mr. Prebisch broke in to explain that in the Argentine they would tell us that land reform would be achieved in 100 years through inheritance!) Mr. Santa Cruz says that the attitude is changing in Chile and even the Conservatives see the need for land reform. He thinks that taxation on unused land would help make it revert to the government.

Mr. Santa Cruz thinks that the new agricultural law, just passed, provides a good beginning in Chile. This law went through only a week ago. It provides, according to Santa Cruz (and the law was later described quite differently by President Alessandri): the

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law provides that the public land can be divided among peasants and workers who want it; 2) that there shall be a tax on unused and badly exploited land which will open it up for distribution to those who will use it; 3) that the president shall have the power to expropriate - if the land is "badly needed"; 4) that a board shall be set up to select the people who will get the land.

The problem, Mr. Santa Cruz points out, will in part center on the shortage of capital for the people who want to take the land and develop it. But he thinks this law is a big step forward - and it shows, he says, a change of attitude.

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The Governor asked what kind of money will be required to stimulate private entrepreneurship in Chile. He was told this would take about $300 million a year. The Governor asked how much would the public have to put in? He was told $1 billion a year. (I'm giving a literal interpretation here of my notes but because the interviews are so far behind me I cannot now interpret these figures or the Governor's questions.)

I am clear that Mr. Prebisch and Mr. Santa Cruz feel that the objective for growth in the over-all economy of Latin America is three percent. They estimate that such a growth requires an investment rate of an extra four billion dollars a year - of which they think private investment of two billion four hundred million would be forthcoming if public investment of one billion, six hundred million were provided.

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Somewhere in the course of this meeting, talking about words and semantics, the Governor made an amusing comment, "We are destroying English and it is destroying us". (This reminded me of my speech in Paris in '48 - dealing with the fact that the Russians were stealing the great words of our language. And it reminded me of Anne O'Hare McCormick's marvelous phrase, "Upside down language".)

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The Governor asked the figures of loans from the Export-Import Bank and the International Bank. Mr. Swenson, Mr. Prebisch's deputy, estimated these at a hundred million dollars last year. (All these figures have to be checked before I use them in the Britannica article.)

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Over and above the official interview reported in the foregoing, with Mr. Prebisch and his staff, I had two dinners with him at his home, one of them with Governor Stevenson.

At these dinners, Mr. Prebisch again emphasized that he was deeply worried about the trends. He again reiterated that in the ten years after the war - the rate of growth was 2.7 percent - but in the last several years it has only been one percent per capita. He continued to stress that without a bold attack, the rate of growth will not increase. He fears there are many factors which inevitably will keep it very low:

1) the communist penetration.

2) the problem of youth; the young people fear they're without an outlet. They develop frustration. If they cannot exercise their growing sense of power - in their frustration they're likely to turn to communism.

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3) a frontier is needed. Where is it? Where is it? Where is the frontier to absorb the revolutionary elements? A "frontier of dynamic opportunity" for the young is needed. The boldest of the Chileans emigrate. Thus Chile loses its most promising citizens. There are 300 Chilean nurses in the United States - as an example. There are many Chileans in many other parts of the world. This is partly due to the fact that the Chilean economy itself is "too undynamic" to keep these people at home in Chile.

Of course Mr. Prebisch thinks that the Common Market is one important antidote but he concedes that the problem is far more serious than this. Although he urges the possibilities of the system of private initiative, and its great potentialities - he does not think that private groups can possibly respond successfully, in themselves, to the Soviet threat. He suggested that the State Department thinks that they can - or at least that this was the policy of the State Department when the present Republican administration came into power. He doesn't agree. (Mr. Swenson broke in to say that Henry Holland, as Assistant Secretary of State, "had tremendous power". Mr. Holland was not viewed with approval.)

Mr. Swenson has been Prebisch's Deputy for ten years. He's a Minnesota Swede from St. Olaf College. And a very attractive guy. He said he is very worried. He too is greatly concerned about "trends".

Mr. Prebisch himself only took the directorship in the second year of ECLA. I gather that ECLA was originally created for only three years - but that it has become a permanent institution.

Mr. Prebisch told me that in a choice between "made in Moscow" - or "made in Washington" - most Latin Americans would take

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the former. He wants ECLA to help provide a better answer to this choice. Further he wants to promote "made in Latin America"!

(Mr. Prebisch spoke of the Mexican economists, which are Marxist-oriented. He said that in his youth, Marxism was indeed a real theory. But now nobody speaks of "the theory of value".)

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At the second evening meeting, with Governor Stevenson on hand, Mr. Prebisch stated that to accelerate the rate of growth, a target was needed. Shall we shoot at one percent, two percent, three percent? If two and a half percent, as an example, certain definite measures need to be established.

He suggested we set two and a half percent as a target. And then he asked - what are the obstacles? They are social and political more than economic.

First there are the traditional groups with power. Mr. Prebisch said that "even if they see" - "they don't feel".

Secondly, there's the problem of education - and the better use of the land. One of the scandals of course is illiteracy. This could have been solved. But the ruling classes only pay lip service to its solving. They don't listen to "the voices of the masses". (Chile is a good example of a ruling class trying to stop inflation, to bring order - but does it indeed have good sense? Doesn't it lack imagination and faith in the new opportunities? Isn't it indeed living in the world of the twenties? Mr. Prebisch agrees that Chile should have "sound money" - as a basis for economic development.

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He agrees that one of the biggest obstacles to economic growth in Chile is the lack of incentive which has been stimulated by inflation.)

The leftist groups and the communists feel these problems most acutely. Mr. Prebisch says that the United States has lost the left - "in a Latin American sense". (And he emphasizes that he does not mean the communists.) - and we have lost the left, "those who feel the need for social and political change", those who supported FDR.

Mr. Prebisch says that Roosevelt was the first President in whom the left and progressive groups in Latin America had real confidence. He reminded us that Woodrow Wilson sent the Marines to Mexico. He reminded us that FDR did nothing when Cardenas expropriated the oil of Mexico. Prebisch said that Cardenas' Cabinet told him we might invade when he expropriated the oil. Cardenas replied, "If FDR does that, I shall resign and another man may make peace!"

When Prebisch was head of the Central Bank of the Argentine, he visited in Washington in 1940, seeking loans. He wanted to buy the British railroads - their trams and their pipelines. He was taken to meet President Roosevelt. The Argentine Ambassador said that he could have five minutes with FDR. He spent 45 minutes. President Roosevelt favored the transferral of ownership of the British railroads. President Roosevelt told him, "If the British are in a dangerous spot, they will sell". The British received $110 million.

Mr. Prebisch thinks that the big problem is now to re-educate the progressive elements in Latin America towards the U.S. How does

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the United States attract them to its viewpoint? How do we in the United States learn that Allende is not a communist but a progressive?

Mr. Prebisch thinks that we of the U.S. need an ideology with which to combat communism.

Mr. Swenson suggested that there was an acute problem in the Latin American re-distribution of income - that the upper classes with high incomes do not pay taxes - nor do they save money to re-invest in the economy.

I asked what the rich people do with their money. I gather that they have four or five houses, complete staffs of servants in Paris and elsewhere - etc., etc. A thousand families or so are very rich. And they do not indeed provide savings. They concentrate on what Thorstein Veblen called "conspicuous consumption".

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Mr. Prebisch suggests that the problem in Latin America is to build up each country, country by country, as we attempted in the Marshall Plan - through the kind of inter-regional plans which he supports.

He does of course say that the beginning of such a program is "to separate the urgent from the less urgent"!

He thinks that ECLA can make an inventory of basic needs, of unsatisfied needs, country by country - and of capital needs - country by country - including housing, schools, "training of manpower", etc. This of course is planning on a very vast and great scale. This is the challenge for ECLA as he sees it. (Only a few people we talked to, among the leaders, seemed to recognize that there is an organization like ECLA, eager to take over such an assignment.)

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Thus in the Argentine probably the best investment by ECLA or by any other research organization would be in agricultural research - and I suspect it's doubtful that this is generally understood by ECLA or by the U.S. government.

Governor Stevenson made the comment that "ECLA is no planner". But of course this wholly depends on the definition of the word "plan". Mr. Prebisch says that the big Latin American problem is "the imbalance of foreign payments". If this is true, this would seem to indicate some need for planning.

By plans, Mr. Prebisch suggests, sudden imbalances can be minimized. This involves complex questions of exports which must be controlled - and of imports and substitutions.

Mr. Swenson said something which seemed to me wise and practical, "We're not planners, but we train planners"! This caused Governor Stevenson to ask, "If ECLA had authority, 'what would it do?'" Mr. Prebisch replied, "We would divide the immediate problems from those of longer range". He said that the immediate problems included those growing out of inflation and the balance of payments in countries suffering from inflation. The immediate problem, says Mr. Prebisch, is the so-called "Operation Bootstrap".

Mr. Prebisch said that "I was responsible in my youth for the Central Bank in the Argentine before Peron". He made this comment because we had agreed that inflation was in large degree "a lack of responsible policies".

The longer phase is related to the rate of savings - and its relationship to the rate of growth. Mr. Prebisch contends that for

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a satisfactory rate of growth, "outside cooperation" is needed. Here's where he brings the United States into the problems of long-term policy. Here again he emphasizes the opportunity and the need for a three percent growth rate - which of course requires big outside credits.

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Mr. Prebisch feels that the local industries of Latin America must be given a chance to develop - and that they will require tariff protection.

He explained that the International Monetary Fund preaches hard, tough practices - and he said he would agree with these but that in addition he would point out that there is a very difficult area of unemployment - that while he agrees on a firm monetary policy - while he agrees that savings must be stepped up - he also feels that a long-term program should be agreed upon. (Most certainly he is not very clear in his answers to some of Governor Stevenson's questions.)

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Mention was made of the fact that Mexico is going ahead three percent in population per year - plus three percent per capita in its industrial development.

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Mr. Santa Cruz, a Chilean who represents the United Nations in Santiago, said that in his judgment he would give priority in the next decade to education - "I give first priority to education". When I asked what were the most important investment needs - I was told that they were in education. Mr. Prebisch said, "The very

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impressive illiteracy in Latin America is something for which we are ourselves exclusively responsible".

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Governor Stevenson suggested that we had the New Deal in the '30s - and that perhaps Latin America now needed its own New Deal! - indeed there are those who say that Latin America needs the Mexican Revolution of 1910.

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I asked about Roosevelt's Good Neighbor policy. I am not clear that Roosevelt ever spent much money on it. Nelson Rockefeller's program and other programs had great psychological impact, but I don't believe they cost much.

Governor Stevenson suggested that our problem with Latin America didn't seem to him to be money. He asked whether South America couldn't solve its problems without United States money.

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After our visits with Mr. Prebisch we received a remarkable memorandum from him headed "Some Reflections On The Need For An Economic Development Policy in Latin America." I read this memorandum carefully and I think that it was specially written for Governor Stevenson. It can act as a correction and amplification to the foregoing memorandum. His own written word is more authoritative.

I am attaching this memorandum and a second one headed "Important Problems of Agriculture in Latin America" which was given us by Mr. Santa Cruz. I am also attaching an ECLA memo of May 1959, prepared for the meeting in Panama of that date, titled "Advice and Assistance to Governments in Programming Economic Development".

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BRAZIL

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Memo #74

3/21/60

LUNCHEON WITH THE DIRECTORS OF THE AMERICAN CHAMBER OF COMMERCE OF SAO PAULO, PRESIDED OVER BY CONSUL GENERAL MR. WILLIAM P. COCHRAN, JR. AND ATTENDED BY GOVERNOR STEVENSON AND SENATOR BENTON

This group consisted of 20 or 25 American businessmen. Over cocktails we had a chance to chat with many of them at some length. After lunch Mr. Cochran asked them to tell us their principal problems. This is the best looking group of American businessmen I've met in any foreign city except London. One of them told me that it is the most important American group in any city except London. I don't think the men averaged more than 42 or 43 years. They seemed aggressive, alert, and perhaps more important - they seemed happy to be here. The oldest one of the group was Mr. Samuel F. Chalfin, perhaps a man in his 60th year, vice president of the American Machine and Foundry Company. Over a gin and tonic he told Governor Stevenson and me that the group was unusual. He said, "We are all of us here voluntarily; we're here because we are happier here than we would be in the United States; we feel we can achieve greater fulfillment here; we don't want to go home; we like it better here." This is the first time I've ever had any such blanket statement made to me by an American businessman - in any overseas city - and Mr. Chalfin made this in the presence of half a dozen other directors of the Chamber - and without contradiction. Sao Paulo is indeed a boom city and these men are carrying significant responsibilities. They are making important decisions. They like the dynamic quality of the city.

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The city has the spirit which I identify with Chicago back in the '90s, - in contrast to our eastern cities of the United States. Even in the '30s, when I moved to Chicago, I remarked on the extraordinary differences in attitude between the Chicago business community and that of New York to which I had become accustomed. Sao Paulo, like Chicago, is a fast moving city where decisions are made quickly - and I suppose over the telephone, and often without the help of lawyers and documents.

I chatted with Mr. Williams, president of Sears-Roebuck in Sao Paulo. He says Sears has invested $15 million in Brazil and has allowed its profits to accumulate until its investment is almost $20 million. Sears hasn't taken out in dividends an average of 1-1/2% on its investment. Sears, wholly owned by Chicago, has gone into business whole hog with Brazilians. Thus if I wanted to set up a company to manufacture refrigerators, to sell to Sears, as an American entrepreneur here in Sao Paulo, Mr. Williams would much rather turn his back on me and deal with a Brazilian entrepreneur - "everything else being equal." Less than 1% of Sears retail volume here is being imported - and this includes imports from Europe as well as North America.

I sat next to Mr. Mason, executive vice president of Anderson & Clayton of Brazil. (See attached list of guests at the luncheon.) My long and close friendship with Will Clayton, who brought me into the State Department, gives me a special interest in this firm. Mr. Mason tells me that Anderson & Clayton is the biggest company in Brazil. It started here in '34 and started to manufacture only in

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'36. This year it will do a business of around $250 million. This is largely in products based on oil - oleomargarine, peanut butter, salad oil and cooking oil, et cetera. Mr. Mason told me that Anderson & Clayton's total business exceeded a billion dollars, of which Brazil contributes some 20 or 25%. He said Anderson & Clayton's profits after taxes run $10-20 billion. Will Clayton and his family own 23% of the stock. Will is still in his office every morning - at eight! - and is still the key figure in the firm.

We have had many reports on political corruption here. Mr. Cochran, who was at my right and Mr. Mason at my left, agree that politics is corrupt, but both insist that there are "some honest men." Mr. Cochran jestingly said that after 30 years in Latin America - he would be impressed to find five honest men! When I pressed for examples of how the graft and corruption worked, I was told that at the lowest and simplest level - a government clerk might take 100 cruzeiros (50¢) to move your paper from the bottom of his pile to the top of his pile.

Mr. Cochran and Mr. Mason agreed that government officials are not paid enough - "they aren't paid enough to be honest" - and thus men running for office often spend a fortune in order to be elected because they know of the big money which they can earn through graft, through the spoils of office, once they are elected.

(Mr. Mason said that Anderson & Clayton has had a firm and fixed policy never to pay graft to anybody. He thinks this has paid off. The tax collectors here who want graft don't bother with Anderson & Clayton!)

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Mr. Mason thinks that the biggest problem the United States faces in Brazil is "to make our good points known." He thinks it's a public relations problem. He feels that Americans should "mix much more with the Brazilians." In other words, this experienced and engaging American businessman is providing strong arguments for an increased budget for USIA - and for better USIA leadership.

The Goodyear representative at this luncheon told me that his principal problem was to get financing - and that he was paying 19-1/2% for money. This problem is typical of the reports of the whole group when Governor Stevenson later asked them about their difficulties. The Swift man said his greatest difficulty was "lack of transportation." Mr. Wagner of Lions S/A, distributor of agricultural machinery, said that his imports of agricultural machinery from the United States had dropped from 50% of his business to 3% because of the competition with Czechoslovakia and other Iron Curtain countries which provide government subsidies to their manufacturers. (Lions distributes Caterpillar Tractors among other American products.) The Union Carbide representative said that the inflation was plaguing him with a shortage of working capital. The Sherwin Williams representative said that he suffered from high import costs on raw materials he has to import. Apart from financing, I rather think the principal complaint was that the head office just can't understand Brazil or think intelligently or constructively about it." The representative of the St. Regis Paper Company said that two vice presidents of his vast company went to Washington and were told by the Department of Commerce to invest no more in Brazil!

And of course there was a complaint that the International Monetary Fund would not give the $300 million in extra credit to

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Brazil because Brazil would not follow the anti-inflationary policies recommended by the Fund.

The Westinghouse representative said that he was suffering from price competition from European firms which are aided by their governments in the form of special credits and other advantages. The Price Waterhouse representative interested me most of all: he says he suffers from a deficiency of training of local personnel; he says the University teaching is deficient. The Dupont representative referred to inflation as his greatest enemy. This makes it very difficult for him to maintain working capital and to pay a fair return to Wilmington on the dollar investment. There were many comments about the problem of "borrowing money at an interest rate we can afford."

There was a comment about the difficulty in achieving sufficiently close "joint understanding" between the U.S. and Brazil. A lawyer referred to the need of "building the bridge" between the legal systems.

The final comment of the round table, however, seemed to summarize the general feeling of the group that the companies it represents are indeed operating in a boom economy - with great hope around each corner that lies ahead. This comment was "We are in a wonderful market as the previous comments show, and all of us here are most welcome in Sao Paulo as Americans."

* * * *

Two or three anecdotes.

The Brazilian colors are green and yellow. The story goes that a Nationalist here is "like a watermelon." A watermelon is green and yellow on the outside. "But the Nationalist is red inside!"

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Mr. Mason spoke enthusiastically about our new Ambassador, Mr. Cabot, who is "speaking out on what the United States is contributing to Brazil and what the United States is doing for Brazil." Mr. Mason suggests that Ambassador Briggs, his predecessor, did not do this.

* * * *

When President Lopez Mateos of Mexico was in the United States he was asked what his principal preoccupation was - and he replied, "The United States"!

* * * *

Mr. Mason says that in figuring any new Anderson & Clayton investment in Brazil, he wants to get his money back in no more than three to four years. He was astonished that I was prepared to put money into a Brazilian-Portuguese encyclopaedia in hopes that I would get the money back in seven or eight or nine years. He advises against it. Indeed, with Goodyear paying 19-1/2% for money, anybody with cash can get his full capital back in five years. Mr. Mason feels that the boom must collapse some day, that instability is obvious in the present economy, that there must be a setback coming - and that seven, eight or ten years is much too far to look ahead.

* * * *

The American Consular General, Mr. Cochran, told me of a letter he had recently had from Denver. This seems to have come from a taxpayer who doesn't like the money we are pouring into South America. The taxpayer wrote, "March is now more lamb-like - now that we get fleeced in April!"

Dictated in Brazil
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American Consulate General
Sao Paulo, Brazil
March 21, 1960

LUNCHEON FOR GOVERNOR ADLAI STEVENSON ON TUESDAY, MARCH 22, 12:30 p.m. AT AUTOMOBILE CLUB WITH THE BOARD OF DIRECTORS OF THE AMERICAN CHAMBER OF COMMERCE FOR BRAZIL, SAO PAULO

President	Mr. Thomas Romanach	Director & General Manager Consumer Goods Dept. General Electric S/A
1st Vice President	Mr. Howard L. Mason	Vice President & Director of Anderson Clayton & Cia. Ltd.
2nd Vice President	Mr. Fernando E. Lee (will be present for cocktails but not luncheon)	Mgr., Mario de Mariz Maia
3rd Vice President	Mr. John F. McLain	General Manager, Bates Valve Bag Corp. of Brazil St. Regis Paper
Legal Counselor	Mr. Egberto Lacerda Teixeira	Attorney
Director	Mr.Henry O.Dougherty	President, Sherwin-Williams do Brasil S/A
Director	Mr.Samuel F.Chalfin	AMF do Brazil S/A
Director	Mr. Paulo Reis de Magalhaes	Executive, Cia, Itaquere
Director	Mr. Ernest W. Mandeville, Jr.	General Motors do Brasil S/A
Director	Mr.Gerard C.Powell	Cia. Goodyear do Brasil
Director	Mr.Charles R.Taylor	Accountant, Partner, Price, Waterhouse, Peat & Co.
Director	Mr.Robert L.Wagner	Sales Director, Lions S/A
Director	Mr.Daniel S.Wilcox	Westinghouse Elec. Co. of Brazil
Director	Mr.Emory Williams	President, Sears-Roebuck S/A
Director	Mr. J. R. Zerbst	Union Carbide Corporation
Director	Mr.Robert C.Ziecher	President, Cia. Swift do Brasil S/A
Director	Mr. Frank McClure	President & Gen. Mgr. of Dupont do Brasil S/A
Hon. President	Mr. William P. Cochran, Jr.	American Consul General

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Cat. #1710
Memo #76

3/29/60

MEMORANDUM OF VISIT TO RANCH OF INTERNATIONAL PACKERS
by Governor Stevenson and Party

This is the company which bought the international divisions of Swift & Company and Armour & Company. Last year it did a $400 million business - about 60% in the sterling area. It earned over $12-13 million before taxes and around $8 million after taxes. Please get for me its annual statement. Our host, Tom Taylor, its president, chartered a plane to take us to one of his ranches here. He is a son-in-law of Gus Swift, second oldest of the sons of old Adolphus; Gus was president of Swift & Company for many years.

Our plane flew over the new coffee ranches of Sao Paulo. We circled one ranch of 7 million trees, developed by an Italian immigrant named Gerimir Lunadeilli. These trees take about five years to come into productivity and are then productive for five, six or seven years. They are worth about $5 per tree. Mr. Lunadeilli has other plantations for a total of 20 million trees - $100 million - wholly apart from the value of the land. He also has sugar plantations. On the big ranch we circled, there are several thousand employees. The men work under contract, responsible for a given number of trees. This whole ranch has been carved out of the jungle in the last ten years - mostly by hand. (The modern techniques involve great tractors which rip down the trees with the use of big chains.) Much of the jungle land was bought by Mr. Lunadeilli at $1 an acre and is now said to be worth $40 an acre without the coffee trees. Mr. Hickman Price told me that such success stories are "a dime a dozen" here in Brazil. I doubt it.

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In the state of Sao Paulo, a large percentage of the best land has now been reclaimed from the jungle. First, the commercial timber is taken off the land. Some three years is spent in the cutting. Then the remaining timber is burned off, and the land is planted in grass. Then may come cotton. Finally, the stumps may be pulled out. I heard various stories today and various estimates. I was told that it cost only about $1 an acre to clear the land of trees for the planting of grass, and $3 an acre for complete clearing. I had varying estimates on the cost of the land, from $1 an acre to $8 and $15 an acre - and on the value of the land - from $30 to $50 an acre. But the big story is evident. The land has been bought cheaply; it is being cleared aggressively; and it is worth a great deal more than it costs.

In the past, the small time pioneers who have cleared the land have farmed it for a while - and when the land has become unproductive - the pioneers have moved on again into the wilderness, to clear new land, while they have abandoned the old. The increasing probability is that new techniques of crop rotation and fertilizer will be used. The land won't be abandoned. It won't be allowed to wear out.

The best land is now being rapidly claimed from the jungle. But there are hundreds of millions of acres still available in provinces to the west. In Matto Grosso, I was told, only 25% or 30% of the land is really good - and of course these estimates vary from state to state throughout the country. In the state of Sao Paulo, I was told, very little good land is left. The new settlers and pioneers and ranchers must go "further out".

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International Packers has five Brazilian ranches which total about 150,000 acres. They are in partnership with the King Ranch and are breeding the special type of King Ranch cattle, a Brahman breed crossed with other breeds - which Mr. Taylor's managers think will be ready to market a year younger than previous breeds. The savings are of course enormous.

The manager of these ranches is a Mr. Irwin who is the father of Don Irwin, our Congressman from Fairfield County. Mr. Irwin came here in 1916. His daughter was our hostess today and served us a wonderful Brazilian luncheon. Mr. Irwin went to the Argentine originally as a cattle buyer for Swift & Company. He is khaki clad, booted, a man in his 60's with a leathery face and a straw hat - with a quiet air of confidence. His daughter is an attractive willowy blond with a 6 year old son in school in the city of Sao Paulo. She likes living on the big ranch, with an airplane at her disposal, and a town of 50,000 not too far away. This town is named after a former president of the country - and is called "Presidente X" - (I can't remember the name of the president! - either Presidente Prudente or Presidente Epitacio.)

(We saw from the airplane a boom coffee town of 125,000 which we were told was a mere village ten years ago. We saw paved roads running in various directions which we were told were impassable a few years ago. More importantly and more impressively, we saw hundreds of thousands of acres which were jungles only a few years ago.)

International Packers ships from their ranches about 20,000 head of cattle into their Sao Paulo plant each year - primarily to

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provide their plant with cattle in the off season when otherwise cattle would not be available or would be very high in price. The ranches often do not sell their cattle on a basis most profitable to the ranches; they feed them into the plant at Sao Paulo on a basis most profitable and productive to the plant. I was reminded of the problem in Montevideo on the Swift and Armour plants. These Uruguayan plants only operated three or four months a year, we were told, and of course profitable operation requires much longer operation - and here is where the Brazilian ranches fill their role for International Packers. Further, the ranches are conducting important experiments looking towards the development of the best breeds of cattle - the best methods of feeding - et cetera - for the benefit of the suppliers from which the plant buys most of their cattle. The Sao Paulo plant takes about 150,000 cattle annually, or 7-1/2 times its own supply. The output of this particular plant is largely consumed locally, by the Brazilians, whereas 75% of the output of the Buenos Aires plant is for export.

I did not take notes today, because I did not think this particular material would be of any special interest to Governor Stevenson, who understands it far better than I do, or for use in my Yearbook article. I'm dictating this hastily at night before going to bed - thinking that some of the angles here may be useful to me in the section in the Yearbook article that I want to devote to foreign capital. The development of International Packers is a good story on American foreign capital operating here in South America.

And a most important angle may be Tom Taylor's comment about his competition with the British. This is with a really big British

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firm controlled by a family named Vestey. They have 100,000 head of cattle on their ranches here and have been operating for may decades - in contrast to International Packers recent development of ranches.

Tom Taylor does not have high regard for British flexibility in their export operations, either that of the Vestey Company here in Brazil or of British companies in general. He thinks they are too stiff-necked and too inflexible. He feels American companies and managers are more alert, more on their toes, quicker to adapt themselves. He told Governor Stevenson and me a story of his problem in dealing with the Brazilian government last September - when the son of Lord Vestey telephoned him and proposed that both companies close up their plants in Sao Paulo because the Brazilian government demanded that they continue to sell their meat products at a considerable loss. The packers were operating under price control on the sale of their meat, while they were purchasing their cattle at higher and higher prices. International Packers had lost money for two or three months, maintaining low prices, but Mr. Taylor refused to take an arbitrary attitude towards the government - and he kept his plants open - and the Vestey plants followed suit because of his leadership. He thought their proposal short sighted and stupid.

Of course I understand the urgent need for higher beef production, for the elimination of the hoof and mouth disease, for the improvement of the breed, for better transportation so that the fat can be preserved. (Mr. Irwin told us of three thousand head of cattle which had recently walked 900 miles in 90 days - from a distant Brazilian Province - to be fattened on his ranch. Only two head had died.

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But it would take a full year, or at least ten months, to fatten these cattle for the slaughter house.)

A dilemma of production is in the new coffee plantations. More and more land is being developed for coffee. The government now has a surplus of 40,000,000 bags, roughly 2-1/2 times current annual exports. (I was told today that three-quarters of this coffee is inferior and is good for nothing but fuel.) Net coffee production is mounting rapidly. Unlike wheat, coffee cannot be turned into whiskey or vodka - or bread.

I don't see how the export quotas on coffee can be permanently sustained by coffee growing countries in the face of rapidly increasing productivity. I shall have to learn more about this - and discuss this in my article whether I know more about it or not!

Dictated in Sao Paulo, Brazil
arh

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Cat. #1711
Memo #77

3/29/60

MEMORANDUM ON AMERICAN CAPITAL
OPERATING IN SOUTH AMERICA

I wish I knew more about Nelson Rockefeller's operations here in this continent. I remember a luncheon with him at the Rainbow Room when he was beginning his big financial operation known here as IBEC (International Basic Economy Corporation). He generously offered to let me in on it if I would invest $250,000. This was the minimum he would accept. He acted as if he was doing me a favor. I remember that I told him, appalled, that I just scraped up $100,000 to finance the Britannica. I refused the compliment. I think the story of his efforts here would be a valuable story to summarize in my article under the heading of American foreign capital in South America. He has had many setbacks and failures, but his flashy looking supermarkets in Caracas are said to be a big success. He is not building up his big ranch in Brazil. Frankie Jamieson has died. Will John Howe please find out where he can get the story?

Today on the trip to the International Packers ranches - there was a young man named Jenks who is the son of a classmate of mine and who was himself a classmate of John Fell Stevenson at Harvard. Young Jenks says he came down as an "analyst" for the Rockefeller Brazilian "Open End Trust". In Buenos Aires, I had met a Mr. Aldrich, a cousin of Nelson Rockefeller, who is in charge of this facet of the Rockefeller enterprises here.

This open end mutual Trust, if I have the right terminology, has sold shares to Brazilian stockholders to the extent of $5,000,000, according to Mr. Jenks, and $8,000,000 according to Mr. Aldrich.

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But the managers can't find enough securities that are suitable. They are already the biggest operators on Brazilian stock exchanges, and this will show how tiny are the total operations on these exchanges. Mr. Jenks estimated that the total volume of all transactions on Brazilian stock exchanges, for the current year, was about $80,000,000. And in most other countries of Latin America - there are no exchanges. He said that the fund would have to change its policy, he felt, and move ahead into investment banking - in order to keep its funds occupied. And of course it is of urgent importance to keep the funds occupied in a galloping inflation such as this. The stockholders haven't been able to keep up with the inflation - but they've done better than they might have done if they hadn't been stockholders! I'm quoting Mr. Jenks.

I gather from Mr. Jenks and elsewhere, that the Rockefeller ventures here have lost vast sums in unhappy ventures such as fish in Venezuela, hotels in Venezuela, and other enterprises where absentee ownership has found it cannot operate. On the over-all, I gather, the Rockefeller ventures have lost large sums of money. Nelson Rockefeller once told me about the big ranch he had bought here in Brazil. I find he has a partner in it. Mr. Patterson criticized him because he has failed to develop the ranch. And this puzzles me because Mr. Rockefeller told me the one reason he had bought the ranch was that Brazil had no inheritance taxes, and that he wanted the ranch as an inheritance for his children.

I'm dictating this memorandum not only for my own guidance - but in hopes that John Howe can get data about the Rockefeller

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ventures here. I think it may be a good case story on foreign capital attempting to operate in Latin America. Mr. Rockefeller is very popular here and must have had top people to assist him. Why, then, has he done so badly?

Dictated in Sao Paulo, Brazil
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BRAZIL

Cat. #1712
Memo #78
March 22, 1960

MEETING WITH THE CONSUL-GENERAL AND HIS STAFF

SAO PAULO - GOVERNOR STEVENSON AND PARTY

The Consul General is Mr. William P. Cochran and the Deputy Consul General is Mr. Burton. Mr. Cochran warned us that some of the material is "classified". (I would be perplexed if I were asked to explain which material rates classification! I've tried to report nothing which seems to me classifiable.)

Consul General Cochran, who has been here five months, explained that there are 34 Americans in the Consulate, (five of them in USIA) - and 51 locals for a total of 85. (Mr. Cross, former Consul General, was wrong in telling me that this was the biggest Consulate outside of the capital cities of the world - Mr. Cochran says that there are many as big or bigger - in Hong Kong, Singapore, Yokahama, and elsewhere.)

Mr. Cochran said there are 5,000 Americans in Sao Paulo (in contrast to 15,000 in Mexico City) and 6,000 visas are granted yearly. There are 400 American firms with branches here - with an investment of $900 million out of the total American investment in Brazil of $1 billion 300 million.

Mr. Cochran says that Sao Paulo has a population of 3-1/2 million and is the fastest growing city in the world. He says that the state of Sao Paulo is larger than 16 of the 21 American republics. He says that this city is a melting pot - that 90 per cent of all immigrants to Brazil now come to the State of Sao Paulo; that the city is a mixture of Italians, Portuguese and Spanish. He spoke of the

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monument we passed on the way in from the airport, the monument to "Bandirante", (pioneers). He referred to the guy at the end who seemed to be pushing the people ahead of him including the two horses at the lead of the procession. He said that this typifies Sao Paulo - pushing, dynamic - eager to get ahead.

He introduced Mr. Burton, his deputy.

Mr. Burton said that he had been here for a year and a half or so but that he had become a "paulista" after a month or so. That it didn't take much time for a newcomer here to sense the drive, the hard work of the community, "the sense of pride". There seems to be terrific rivalry here in Brazil between Sao Paulo and the rest of the country, and perhaps our closest counterpart between the rivalry between Sao Paulo and Rio is the rivalry of a couple of decades back between Los Angeles and San Francisco - before Los Angeles left San Francisco behind! - as Sao Paulo is now leaving Rio.

Mr. Burton told us that the community of Sao Paulo is most alert politically. 95% of eligible voters cast their votes in the '58 elections. Of course the corruption in the city of Sao Paulo is notorious. The Mayor admits openly that he has grown rich in public office. He claims, however, that he has paid off to those who have paid him off! - or something to this effect. (I am reminded of our own phrase that an honest politician is one who stays bought.) The Mayor is one of the three present candidates for the presidency of Brazil. Seemingly, he hopes he may put himself into a position of having a "swing vote" between the two leading candidates. But the people of Sao Paulo, as an expression of their disgust at the

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corruption, in the '58 elections, cast ballots for alderman for the famous rhinoceros in the city zoo - named Cacareco. There were 540 candidates for alderman - with 45 to be elected representing 11 parties; Cacareco leading the entire list!

The State of Sao Paulo is by far the most important politically of the states of Brazil. Two of the three presidential candidates come from this state. Six presidents of the twelve parties are here, and maybe seven. This is true although only 20% of Brazil's population is in the State of Sao Paulo, and only 25% of the voting strength. All candidates for president and vice president identify Sao Paulo as the key state, the key balance point, the critical center and pivot of Brazilian politics and its economy.

Mr. Burton explained that Brazil only recently emerged from dictatorship - The Vargas dictatorship in '45. In 1950 Vargas was elected president legally and some say that the country did not actually emerge from dictatorship until he committed suicide in '54. Now the country is running along constitutional lines. There is a senate of 3 senators from each of the 21 states - each senator elected for eight years - with one-third of the members elected in one election during the eight years, and two-thirds in another. The deputies are elected for four years as are the mayors, the city councils, etc.

There is a literacy qualification for voting. Here in the State of Sao Paulo three point eight millions qualified for registration in '58 out of a population of 11.5 million. Now the proportion is roughly 4 out of 12 million.

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The system of proportional representation was described by Mr. Burton as "very strange". The individual voter casts his vote for individuals but each vote also is counted by parties. I don't understand this "strange" system and shan't try to explain it. But Mr. Burton described how the politicians are "highly individual", each with his personal following, shifting often in allegiance from party to party. Further, a political leader will support candidates of his own party in one city - and oppose them in another. Mr. Burton told us there was "no consistency or pattern". The political leaders and parties seem constantly to be reforming - coalescing, shifting, without any clear idealogical lines - a constant power struggle for votes and jobs and prestige, - with political leaders in the same party following wholly contradictory policies at any given time - or with a leader arguing simultaneously on both sides of a question. Thus, as an example, a political leader can be urging more foreign capital investment while at the same time he denies the rights to dividends on it.

Mr. Burton explained that the politicians operate under many pressures. The most vocal, he said, is from students - "as elsewhere in Latin America". And to describe the contradictory policies followed by students - he said that their leaders would deride U.S. jazz ridden students - for their irresponsibility - while at the same time they would walk into their professors' studies and "defecate and urinate as a sign of protest". He added, "Yes, really!"

There are three major universities here in Sao Paulo with fifteen to twenty thousand students. Secondary school students are

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also active politically. Mr. Cochran broke in to explain that there are "many professional students who don't spend too much time in classes." This is the same pattern we've run into elsewhere.

Mr. Cochran then introduced Mr. Lyon (Lyons?), the Economic Officer of the Consulate. Mr. Lyon gave us the memorandum I'm attaching. He explained that the State of Sao Paulo, in relation to the rest of the country of Brazil, is like a locomotive pulling 20 empty cars! (21 states.) He said that the State of Sao Paulo contributed 60% of the revenues to the country and gets back only 7% in tax receipts. (There has occasionally been a move to break off the state from the rest of the country, and set it up as an independent country, but apparently it's now at an inconsequential level, a publicity level, such as the suggestion among New York City aldermen to secede from New York.)

Sao Paulo is the largest center in Latin America for United States investment except Venezuela. Mr. Lyon says that the area continues to be "very attractive in spite of the threats of government interference". Actually, he points out, this threat is "fairly light in contrast to other countries". He says that our companies here are allowed to send out their profits - but that a high percentage of them prefer to reinvest them in the future of their country.

Of course the financial problem is the acute inflationary movement. Mr. Lyon knows of one man who remembers when the crusado was worth 50¢. Now it is worth one half of one cent. He said it remained to be seen whether the crusado can be stabilized.

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Mr. Lyon listed advantages here in this boom country for American business:

Good power resources - (see the report on the briefing by Brigader Lima).

Good communications. (Santos is an excellent port with good rail communications).

Good labor supply.

Fairly efficient services - light, water, et cetera.

An energetic people.

A climate which encourages hard work. (The opposite applies in Rio!)

A fairly stable government in the state and city. The state had a surplus last year and may again this year. (Though the city "wallows in a state of bankruptcy"!)

The state depends on transaction taxes which go up with inflation - while the city depends on real estate taxes and other fixed taxes.

The American business community is impressed by Sao Paulo's stability and booming opportunities. It is willing to bring in money to invest here, - and to leave its profits for reinvestment.

I asked whether there was any real opportunity here for small and independent enterprises, coming to Sao Paulo with know-how and modest capital. Seemingly there is not in the opinion of this group. Hickman Price spoke up and said that small enterprises would "lose their shirts". Mr. Lyon said that the big opportunity here was mostly for the corporations. Later at lunch with the directors of the American

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Chamber of Commerce, I was told that perhaps 20 or 25% of the American businessmen here are professional people or others with their own enterprises - such as lawyers,doctors, consultants, investment people and a few manufacturers - but the balance represent American corporations.

Mr. Cochran introduced Jim Shea, (from New London, Connecticut), the Labor Officer. Mr. Shea is going to furnish me with a copy of the paper he had written for the meeting and which he read - and I shall therefore not report on his comments in this memorandum. I liked the conciseness of his paper and its wealth of figures and want to review it for material for my article.

The next officer's first name was Dick, a political officer who spoke of Communism, and whose last name I did not catch. He says that the Communist party in Brazil is "one of the most dangerous Communist parties in the continent". He says it has 40,000 members - second only to the Argentine. In Sao Paulo, "there are 5,400 card carrying members who operate from 300 bases." He says the party is "very influential in labor and student affairs". The ultimate goal, he told us, was to take over the government of the country. Its present objective is to stir up all possible trouble with the United States, to isolate Brazil from the United States - and to develop much closer ties between Brazil and the Soviet Union.

Dick told us that more than 100 Brazilians since 1953 have been trained in Moscow, - for stretches of one to four years, with many for the full four years. He says that these agents in Brazil are now working "to join forces with the non-proletarian nationalist forces".

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He says there is a big debate going on within the Communist party itself as to how far to go, and as to how best to seek such a goal. Dick thinks that the Communist party here is losing some of its revolutionary fervor. It is advocating less violence. Its leaders feel that more can now be done by peaceful means.

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Mr. Cochran introduced the head of the USIA. He too is going to furnish us with his notes and other material. He distinguished at once between the short range objectives, those that he called informational, and the long range - which he called cultural. He says that the most effective single activity here is the Bi-National Cultural Centers. There are 15 such. In the center here in Sao Paulo, 6,000 are studying English. Each year it sends 35 or 40 young "Paulistas" to the States. And it receives in return the Fulbright students and professors - three of each are here at the present time.

Book translations are of high importance - and I am attaching a list which the speaker gave us of current popular books, the translation of which is to be encouraged. Governor Stevenson looked this list over and said that he had read two which are checked. I have read one which I have underlined. Seemingly an inducement is given to persuade a local publisher to translate and publish the book. As an underwriting, the publisher is guaranteed a firm order for 500 copies. (I asked for more data on book translation and have been promised it.)

We were told of the importance of the "President's Fund" which is bringing an American symphony orchestra here, together with the Howard singers.

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We were told of the 1400 films in the catalog here - and these have three mobile units which help to distribute them to labor groups, religious groups and others.

We were told of the radio and three television stations here to which U.S. films are supplied.

I said that all of this sounded to me exactly like the USIA when I was responsible for it, except there was more of it. And indeed the program seems to me almost precisely the same. The only major addition seems to be television and an aggressive program of book translations.

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A Literatura Norte Americana no Seculo XX	American Literature in the 20th Century	Heinrich Straumann
A Poesia e a Epoca	Poetry and the Age	R. Jarrell
As Orquestras Sinfonicas dos EU	The American Symphony Orchestra	J. H. Mueller
Meio Seculo de Vitorias Trabalhistas	Review and Reflection	Cyrus Ching
Historia dos EU da America I, II, III	The Growth of the American Republic	Morison-Commanger
Lincoln	Lincoln	Emil Ludwig
Lincoln	Abraham Lincoln	Bejamin P. Thomas
Introducao ao Jornalismo	An Introduction to Journalism	F. Frase Bond
Ciencia e Senso Comun	Science and Common Sense	James B. Conant
O Atomo e seus Misterios	Inside the Atom	I. Asimov
O Atomo em Acao	Atoms at your Service	Dunlap-Tuch
Horizontes do Poder Atomico	The Prospects on Nuclear Power and Technology	Gerald Wendt
O Novo Mundo do Atomo	The New World of the Atom	James Stokley
Uma Nova Era Em Educacao	The New Era in Education	I. L. Kandel
A Educacao Superior nos EE.UU.	Higher Education in the US	Francis Millet Rogers
Psicologia Social I, II	Social Psycology I,II	Otto Klineberg
Psicologia	Psychology	Henry Garrett
Os Grandas Empreendimentos	Great Enterprise	Herryman Maurer
Iniciacao Simples a Economia	Man, Money and Goods	John S. Gambs

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Grandes Economistas	The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers	R. L. Heilbroner
A Economia e a Arte da Controversia	Economics and the Art of Controversy	John K. Galbraith
O Continente Branco	White Land of Adventure	Walter Sullivan
A Potranca Cor de Ouro Palido	Cold of Destiny	Alida Malkus
Um Caminho sob o Polo	Nautilus 90 North	W.R. Anderson-Clay Blair Jr.
Como sao feitas as nossas leis	How our laws are made	Charles J. Zinn
Os Ismos	The Isms - A History & Evaluation	Eugene O. Golob
A Liberdade na Sociedado Contemporanes	Freedom in Contemporary Society	S. Eliot Morison
Reflexoes sobre os EE.UU.	Reflections on America	Jacques Maritain
Mitos e Homens	L'opium des Intellectuels	Raymond Aron
A Conduta da Vida	The Conduct of Life	Lewis Mumfurd

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BRAZIL

Cat. #1717
Memo #80

March 23, 1960

VISITS TO MERCEDES BENZ AND GENERAL MOTORS PLANTS
IN SAO PAULO
By Gov. Stevenson and Senator Benton

We drove through an area on the outskirts of Sao Paulo which was closely spotted with modern factories and which Hickman Price said had been a jungle only five years earlier. The Governor kept asking about the factories. Next to the Mercedes Benz plant was the Willys plant which Mr. Price had established when he was in charge of overseas sales for Kaiser-Willys. Both plants employ 5-6,000 people and do annual volumes of around 75 million. Mr. Price says that the total automobile and truck volume of the country is about $250 million.

The Mercedes Benz story is a fabulous one which illustrates the financial opportunity which has existed in this inflationary boom economy. A Pole named Alfred Jurzykowski, who owned a series of chocolate plants in Poland before the war, escaped in 1939 as a Polish officer into Turkey. He had money on deposit in New York, Switzerland and elsewhere. He pyramided this money, first becoming an American citizen and now a Brazilian. In 1946, when Germany was flat on its back, he signed a contract with Mercedes Benz under which he secured the rights for Brazil - with 75% ownership for himself - and with this providing the capital. Last year Mercedes Benz bought one-third of his holdings for $14,000,000 - to bring the two interests into 50-50 ownership. We walked through the plant which is now producing 6 and 10 ton trucks, all diesel, plus great busses which use the same engine as the 10 ton trucks. Mr. Jurzykowski explained to me that he

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would not sell his busses for export because he thought this would prove "socially bad". The Governor and I had seen long queues of people waiting for busses in Santiago, and Mr. Jurzykowski suggested that these people would not like it if his busses were sold for export.

The busses and trucks are sold on 24-month terms. Mr. Price explained that they added about 36% to the price - for these terms - 3% per month. I gather that they insure the returns also because Mr. Price said they never lost "one cruzeiro" through bad credit or failure to pay.

The plant was clean and modern, only four years old, and a young man who was with us whispered to me, "the total capital on this plant was repaid by earnings in between two and two and a half years". (This represents the goal of Sao Paulo capitalists, some of whom expect 100% a year on their money, and this helps show the true long term nature of Britannica's investment in our forthcoming Brazilian - Portuguese encyclopaedia - on which we can't expect to get our original investment back for seven or eight years.)

Mercedes Benz helps finance its dealers on their 24 months terms.

My impression is that they are wise in concentrating on three models, or more properly speaking perhaps their two and a half models - because the same engine is used for two - in contrast to the Kaiser plant in Cordoba which has 15 models including a line of passenger cars. However, the Kaiser plant occupies a monopoly position in Argentina, which it is trying to entrench, while the Mercedes Benz plant here has tough competition, at least on its trucks.

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(As to busses, it can sell all it produces - and there is an export demand which it hopes to begin to fill.)

The bus sells for $11,000, about the same price as a similar bus in Germany. Mr. Jurzykowski estimated the taxes in this total figure at about 25%. The original iron ore is taxed; then the ingot steel; et cetera, - and these taxes build up into a pyramid of 25%. We were told that a similar bus in the United States would cost $25,000.

(The engineer who showed us through the Mercedes Benz plant said that within five years all United States trucks, now gasoline driven, will be diesel driven because this is more efficient. Mr. Price said that the issue involved is the price of gasoline versus the price of oil. In the U.S. gasoline is cheap. This engineer also told us that Mercedes Benz' production today is 92% "national", meaning materials bought wholly in Brazil. Within another year, he says, the production will be 99-1/2% "national" - with only 38 bearings imported from outside Brazil. Under a recent contract, Krupp has brought $20 million dollars worth of machinery into Brazil and is producing castings and forgings for Mercedes' Benz at a plant about 50 miles away.)

Of course the great dramatic fact of this visit, coupled with our observation of the many plants in this new area - is the exposive nature of the Sao Paulo industrial development. Mr. Jurzykowski has made himself very quickly, here in Brazil, one of the world's richest men. And Mr. Price said that such stories are "a dime a dozen".

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Mr. Jurzykowski spends three out of four months in Europe. As we left he called through the Mercedes Benz window that he wanted us to take over his yacht in the harbor of Rio de Janiero. His is the kind of story to which Fortune might well devote itself! Owning 50% of the stock in this company, he is naturally in complete control of it.

Mr. Price thinks that the industrial production of Sao Paulo is perhaps roughly comparable to that of St. Louis. But Sao Paulo boasts 75% or better of the total industrial production of Brazil. By Sao Paulo, Mr. Price means an area of 50 miles in all directions - a circle 100 miles in diameter.

The Mercedes Benz plant has no union. The management claims that the wage level keeps up with the price index. I don't believe it.

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We then drove to the General Motors plant which is under the direction of Mr. Klaus Doelling. This is one of four General Motors manufacturing plants outside the United States. The others are in Australia, Germany and Britain. A fifth is about to be started in Argentina. There are 22 General Motors assembly plants. Mr. Price says that General Motors fought to the last ditch - here in Brazil - against converting its assembly plant into a manufacturing plant. General Motors only produces here two types of trucks: a six ton truck and a three-quarters ton "pickup". General Motors sells only for cash. This means that its prices are lower than Mercedes Benz. General Motors Trucks are gasoline trucks and Mercedes Benz are diesels.

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The General Motors Distributor Organization is an old one, going back to the development of their Brazilian assembly plant in the '20s, and the General Motors dealers can provide their own financing - which permits General Motors here to sell for cash. The conversation suggested that perhaps they could not keep this up much longer.

We did not walk through the General Motors Plant but visited in Mr. Doelling's office with his executives, his No. 2 man, Mr. Mandeville, his sales manager, Mr. Wilson, and others.

The General Motors factory manufactures "white goods" meaning refrigerators and other household appliances.
Mr. Doelling told us of plans for expansion.

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The big observation of the morning of course is the phenomenal and unprecedented industrial development of this extraordinary community. Mercedes Benz does not have a union in its plant; General Motors has. General Motors sought to persuade us that it keeps wages going up to match the price index. I do not think this is too common here in Brazil. I don't even think it's possible!

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BRAZIL

Cat. #1731
Memo #90

3/28/60

ROUGH NOTES USED BY SENATOR BENTON IN HIS TALK AT THE COCKTAIL PARTY ANNOUNCING THE BRAZILIAN ENCYCLOPAEDIA

Given at the University in Rio de Janeiro

Mrs. Benton and I are pleased that you could join us this afternoon to celebrate an announcement important in the history of E.B. and, we hope, not unimportant in the intellectual history of Brazil.

As owners and directors of E.B., we are happy to announce our forthcoming Brazilian Encyclopaedia, in Portuguese. Work will commence on this immediately here in Rio under a Brazilian editor aided by a Brazilian staff and a corps of consultants recruited from Brazilian universities. We shall print here in Brazil and begin to distribute within about three years. The set will be in 15 volumes and will run somewhere between 5 and 7-1/2 million words. It will be edited for the entire family.

Mr. Clozis Salgado da Gama, Minister of Education, told me at lunch today that the governmental Commission which has been examining the prospect of a Brazilian encyclopaedia has been disbanded. The project has been abandoned. (The Ministry said the Committee couldn't agree on who was to write the article on "atom"! - <u>not for attribution.)</u>

We plan an investment which is large for a private publishing firm. We do not expect the quick return to which the businessmen of Sao Paulo seem accustomed. We are placing our confidence in Brazil's long term future. We look for our own rewards in the 70s, 80s and 90s. We want to join up our Operation Britannica with Operation Pan-America.

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As publisher and chairman, I am happy to move ahead as a private project. Dr. Teixeira, with whom I visited this morning in the Ministry of Education, feels that books are essential to the development of Brazil's educational system and certainly no books are more important than an encyclopaedic reference set.

Brazil is the most rapidly growing of the great nations of the west. Nothing seems a surer prediction, over the next 25 to 50 years, than the growth and strengthening of Brazil's educational system. Only through education can this rich and potentially powerful country - with its projected population of one hundred million by 1957 - undergird a healthy and flourishing democratic system of government. Only by education can you develop trained manpower essential to the technology of an expanding industrial society and an improved standard of living.

If E.B. can play a small part in this future, the directors of the Britannica will feel greatly pleased and honored.

I'm very happy the Britannica can be able to make this announcement while Mrs. Benton and I are here with Governor Stevenson who is a director of E.B., a member of the Editorial Board, a director of Encyclopaedia Britannica, Ltd., our London company, and a director of Britannica's affiliated company, Encyclopaedia Britannica Films, and Chairman of its Executive Committee and Board of Consultants. Our film company is the world's largest producer of teaching films and filmstrips for classrooms.

I call on Governor Stevenson for a few words.

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Senator Benton mentions specifically Dr. Anisio Teixeira, and the Minister of Education, Mr. Salgado, in the foregoing remarks.

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BRAZIL

Cat. #1718
Memo #81

March 31, 1960

BRIEFING AT THE EMBASSY IN RIO DE JANEIRO.

GOVERNOR STEVENSON AND PARTY.

Ambassador Cabot lead off by telling us that there were no "basic diplomatic problems" which divided Brazil and the United States. He referred at once to the "basic friendship" which has existed between the two countries since Brazil's independence in 1822.

He immediately added that this friendship has recently been "tarnished". He explained that the center of power in Brazil has shifted from the aristocratic land owning groups to the urban middle-class. This process, which he seemed to regard as an inevitable river running down stream, has not been completed. (Later in the briefing it was agreed that the old aristocracy is still of high importance.)

In the process of this shifting of power, said the ambassador, the spirit of nationalism has thrived. A vigorous anti-U.S. propaganda has developed. From this, serious problems have developed for the United States.

He described the new spirit of Brazil:

1) The urgent demand for fast progress;
2) A great outcry against the supposed excesses of American business. (These excesses are greatly exaggerated in the propaganda - but Ambassador Cabot points out that our business men here tend to be clannish, supercilious - and they "don't learn good Portuguese".)
There are widespread complaints of "enormous profits" by American industry and big remittances back to the United States. (Ambassador Cabot has studied this point

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and says that he thinks the average remittances home may be as low as 3% of the capital investment - largely because of the optimism of American companies about the future of the Brazilian economy, and their consequent reinvestment of profits).

The Ambassador emphasized that profits of American companies here are not large by Brazilian standards. Smart Brazilians expect to earn 25%, 40% and 50% each year on their Capital - and indeed the best of them expect to earn 100%. (I confess that this would be my attitude if I were operating in this economy. This morning a young man standing next to me as we went through the Mercedes Benz factory in Sao Paulo, told me that the general belief in Sao Paulo was that the entire capital investment had paid off in two or two and a half years.)

The Ambassador mentioned American Foreign Power and the packing houses as examples of American industries which "take the rap".

He told us that when the American Can Company wanted to come into Brazil recently, it found itself against a local monopoly which was charging high prices and which unleashed vicious anti-American propaganda against American Can.

3) Complaints against the United States for our failure to invest in Brazil through the World Bank, Export-Import

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Bank, et cetera. Yet the World Bank has furnished $250 million here in credit - plus another $73 million now forthcoming for an important dam. The Export-Import Bank, as I understood the Ambassador, has invested $1.3 billion dollars (though I would want to check this figure).

The total of foreign private capital in Brazil might reach as much as $3 billion. Of this, United States capital totaled $1.3 billion in '57 and is probably $1.5 billion now.

The Ambassador explained that Brazil will borrow to the absolute hilt. Last May, the World Bank and other international lending institutions layed down the dictum "no more money to Brazil until you live up to your previous promises to stabilize your economy and to hold back inflation." The Brazilian administration "thumbed its collective nose at the World Bank." And to everybody's astonishment it has managed to stagger through the last ten months, "scraping the bottom of the barrel" - though it has been buoyed up by higher coffee prices than were anticipated.

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The conversation shifted from the projected list of points. The Ambassador told us about Brasilia. This city has been built at vast cost over the last four or five years - as a prime project of President Kubitschek. First, the Brazilian Government bought 5,000 square kilometers - by exercising its right of eminent domain. This

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year it is selling property in Brasilia at "terrific prices" - and the Government is now reaping the profit - and claims that this profit will finance all of its expenditures in 1960 in Brasilia. (I was reminded of the Paradise Golf Club in Phoenix, Arizona - where land was bought at $250 an acre to build a golf course - with the property around it later sold to easterners at $15,000 an acre).

The Ambassador explained that Brazil is determined to expand "regardless of inflation". It won't stop, and it doesn't know how to stop. He intimated, at very low key, that Washington might well relax its "tough attitude in its economic policies here. I think he was intimating that U.S. loans may be forthcoming, that the policies of the World Bank may change.

The Ambassador does not think that it is fair to call Kubitschek's "Operation Pan-American" - "merely a scheme to get money away from the United States." He believes there are indeed genuine resemblances to the Marshall Plan. Naturally, he laughingly admits, there will be big deficits in the execution of plans for the development of the economies of these Latin American countries - and naturally, under the proposed Operation Pan American, "these would have to be met by the United States."

Such potential deficits, projected for us of the U. S. to meet, naturally make us cautious. And this caution, explains the Ambassador, "offends Brazil". The Brazilians take the viewpoint that they have been our friends throughout their history - and most particularly so in the recent war, when they indisputably put their shoulder to the wheel - when they put major effort behind our own war effort. The Brazilians now watch us give money away to India - they see us give

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our money to Italy for her railroads - and they are hurt and offended because we won't even loan money to them to help Brazil's economic development. Thus they are like a girl who feels jilted. And this produces "a sense of resentment".

The Ambassador feels that the President's and Secretary Herter's recent visit here contributed to breaking down this unfriendly or hostile view of us. He spoke of the United States' attitude as a "we don't give a damn about Brazil." The Ambassador stated that he felt that Governor Stevenson's visit here would contribute toward counteracting this impression.

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The Ambassador turned to his Minister at his right, Mr. Niles Bond. The Minister warned us, as we have often been warned before about other countries, that Brazil is "very different."

(For example, even the toughest revolutions here in Brazil are different, according to Dr. Smith, because of the difference in heritage - the difference between the Portuguese and the Spaniards. Thus Vargas during all his years of dictatorship probably didn't assassinate more than 100 key people. Some deny he actually assassinated any one. While in a Spanish country such as Colombia, 150,000 to 300,000 have been murdered and assassinated in the present revolutionary movement, with assassination still running at the rate of something like 50 a week. In venezuela and others of the Spanish countries, as much as 25% of the total population is said to have been killed in some of the civil wars.)

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(At a little dinner arranged one night in Sao Paulo by Dr. Smith, was Dr. Julio Mesquita Filho. He is the proprietor of Brazil's leading newspaper, O Estado de Sao Paulo. This paper was founded by his grandfather and it is the great voice of liberal opinion in the country. Dr. Mesquita is proud of the fact that Vargas regarded him as his No. 1 enemy. During the Vargas regime he was put into jaul 14 times. And one significant point about each jail term is that he didn't know low long he would stay in jail - or whether he would ever get out. One such term ran for six months. Finally his paper was appropriated by Vargas and he spent seven years as an exile - but his life was never threatened. He told us of the torture that Vargas' subordinates sometimes employed. One cell mate came back and committed suicide after torture. Vargas isn't believed by Brazilians to be a true Brazilian. He is described as "A Gaucho, a man of Spanish blood." The general belief is that the cruel Spanish blood is poles apart from the gentler Brazilian blood. Brazilian politicians can get along together after bitter public fights. They bury their hatchets.)

Mr. Bond suggested that no generality applies to Brazil except "it is different." He emphasized its size. It is one-third the area of South America and one-third the population. Thus it isn't "just another Latin American republic." He urged upon us the view that it is "special in every way." I jestingly referred to the

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memorandum we had received from the State Department which pointed out that Brazil is 90% the size of the United States. I had always thought that it was larger. We had to add Alaska to outdo Brazil territorially.

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The Ambassador introduced Howard Cottam, Economic Counselor.

Mr. Cottam spoke brilliantly. I do not believe I have listened to another officer since we left the States whose incisive comments impressed me as much. He says that there are three broad areas of economic problems:

1) The first is psychological. (And it's a rare economist who puts psychology first!)
2) The second problem arises from Brazil's "institutional deficiencies."
3) And the last is "the imbalances in economic emphasis and development."

Now as to the first, the psychological. Mr. Cottam warns us that the economic aspirations of the Brazilian leaders "can't be quenched." They are determined to go ahead - regardless of consequences. They are hell-bent on their own fulfillment. Further, there is a fabulous and enormous gap "between what they have and what they want." More dangerous and alarming, this gap is growing. It is indeed "frightening." This attitude affects policies in key fields. Petroleum and coffee are good examples.

Secondly, as to the "institutional deficiencies." First and foremost and by far it is in the field of education. This is "the big one." Here the deficiencies are so great that Mr. Cottam sees

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"little hope for the development of a sound democratic society or a functioning industrial society" - if these are not remedied. After education come the deficiencies in "commercial practices." These are slow, cumbersome, inefficient. Then come the deficiencies in the judicial system which is shot full of loopholes. This system permits expropriations of property in the provinces - unjust and unwise expropriations such as have recently taken place in the Province of Rio Grande do Sul.

Then, thirdly, are the grave economic "imbalances." These start with the lack of power. Secondly comes lack of transportation. Thirdly comes the unhappy imbalance in food - the present great emphasis on industrial development leaves the country with food shortages. Agriculture is dropping further and further behind. Thus for example there is a lack of wheat. Brazil requires 2,200,000 tons of wheat. But this year it will produce only 350,000 tons. It will have to import 1 million tons from the Argentine, some 300,000 or thereabouts from Uruguay - and the balance from the United States under Law 480.

(The Governor spoke of his meeting with the Governor of Sao Paulo who told him that Brazil was essentially an agricultural country, and that its efforts should much more aggresively concentrate on achieving a healthy agricultural economy. The Governor of Sao Paulo understands this particular "imbalance" and is backing plans to correct it. Mr. Cottam said that "Sao Paulo is far ahead of the rest of the country in agricultural planning.")

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Mr. Cottam said that the Province of Parana last year had produced 12 million bags of coffee, more than Brazil's total exports of the year before. (More about coffee below.) Mr. Cottam said that Sao Paulo "is learning how to grow rubber." He spoke of the "wonderful things happening in Sao Paulo - indeed in all Brazil." And of course some of these are in agriculture. (I have the general feeling that all trained observers here are at times open mouthed in wonder - while they sit in terror at the thought of a possibly catastrophic collapse.)

The Ambassador interrupted to explain that 40% of last year's coffee production was in storage, and that this storage of course had to be financed. The Ambassador referred to petroleum as a problem rivaling coffee in difficulty. He said that the United States, in its attitude toward Brazil's petroleum policy, took a "skeptical outraged view." Yet he pointed out that Brazilian production has gone up from 6,000 barrels a day in '54 to 80,000 barrels per diem in '59. I asked whether this was a creditable record or the reverse. The Ambassador said that this "depends on the point of view." He explained that a Brazilian would ask - "How can you expect us to go up more rapidly than from 6,000 to 80,000 barrels a day in six years?" Indeed, one of the economic officers added, "Some say this development is 'too fast' for proper exploitation." Brazil's reserves don't match those of the Argentine and others.

The Ambassador further said that while this year's coffee crop may not prove too heavy, next year's is prophesized "as a whopper."

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Mr. Cottam called on Mr. William Fowler, one of his associates in the economic division.

Mr. Fowler spoke specifically about petroleum. He thinks the Brazilians "will starve before they will change their oil policy." He says they are highly emotional about it. The battle cry is "Our oil is ours." He said it is impossible to reason with them. Further, as Mr. Philip Raine injected - (the Counselor for Political Affairs) - the military insists that "they won't have foreign ownership or control."

Mr. Fowler reported major efforts in Brazil "to sell the Argentinian idea of oil development" - but these "fall with a thud." Indeed, such efforts "make the problem here even tougher."

Mr. Fowler says that the British and French will sell equipment to Petrogras, the Brazilian oil monopoly, on credit. The Petrogras administration wants American equipment, and prior to "the recent squeeze" was able to get it on credit from American private firms - and indeed can still get some. Petrogras employs 200 American technicians.

The Governor asked why the U.S. Government or the international agencies should put up money for Petrogras when private money is available. He pointed out that there isn't enough U. S. government money available for the many demands upon it. This caused the Ambassador to comment that there were still other arguments to support this view: Brazilian reserves are small and oil is in over supply throughout the world. The Ambassador suggested that for these latter reasons, American companies might not come in to Brazil, as they have into the Argentine, though there are some who fear that they might

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participate "merely to maintain their world position." (This question was not further pursued but my impression is that the Ambassador feels that there are strong arguments for a reversal of the United States position - and for our financial support of Petrogras.)

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The Ambassador next called on Mr. Robert Herder, Director of Point 4. Mr. Herder explained that the cost of living in Rio went up 52% last year - with food going up 70%. Such drastic increases "gave the administration a bit of a fright." In the last three months, the rate of increase has slowed down to between 1% and 2% a month - for something like 3% in total in the last two or three months. The Labor Attaché, Mr. John Fishburn, interrupted to say that a very rapid rise was anticipated in the immediate future.

Governor Stevenson broke in with a comment he had made earlier to me today. He said that in Sao Paulo all the bankers and industrialists seem to be apologists for the inflationary spiral here in Brazil. But that the labor leaders and labor groups are desperately opposed to it. This, he pointed out, is roughly the opposite of how the forces line up in the United States. In the U. S., the conservative groups represented by the bankers and business leaders - are aggressively for a balanced budget and a stable price system - while the labor groups favor a so-called "easy money" policy, even at the risk of some inflation. The group around the table seemed to agree with this comment of the Governor's.

Mr. Cottam helped explain this observation by pointing out the urgent need of business men for money and credit. They will pay up to 30% interest for money - and more - and this "shows the

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big profits they are making and the bigger profits they can make with extra capital." And of course the faster the rise in prices, the more they need credit. The present situation gives industrialists a vested interest in inflation.

The wage increases of the last few months don't equal the cost of living increases. They don't keep up and can't keep up We referred to our visit in Sao Paulo to the General Motors plant. The director claims that GM keeps up wages to the price index. We were told that General Motors is an exception. There was an argument between Mr. Raine and the Labor Attaché. Mr. Raine said that the standard of living of the workers was improving. Mr. Fishburn aggressively denied this. Finally it was agreed that the living standards of the workers may recently have improved some in the south of Brazil, but there is no doubt but that they have fallen "terribly in the north where the workers live in pigpens."

I interrupted to say that I could see a solution to the petroleum dilemma - either the policy of adopting the Argentinian policy, or the policy of driving through with the present policy - but I could not see the way out of the coffee dilemma. There was agreement. Mr. Cottam said that the Embassy saw solution on coffee. He explained that Santos grade No. 4 had dropped from 55¢ a pound to 34¢. But this does not stimulate world demand particularly. The demand is rather inflexible regardless of price. Yes, the demand could be stepped up if the Russians could be persuaded to shift from tea to coffee. Or it could be stepped up if Germany and other countries which tax coffee heavily - could be persuaded to remove their taxes so that the product would no longer be a luxury item for the rich. (Hickman Price told the

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Governor and me that a cup of coffee in Germany costs 25¢.) And indeed the Brazilians are working to eliminate taxes on coffee in countries where these taxes retard consumption - and seem to have made progress in stimulating consumption in Poland.

In '58, Brazil shipped 12.8 million bags. In '59, Brazil announced to other producing countries that it was tired of holding an umbrella up on prices, and that it would undersell other countries. As a result, in '59 Brazil shipped 17.6 million bags - out of total world shipments of 39 million bags. Thus Brazil earned somewhat more from coffee in '59 in spite of lower prices than in '58 - in its foreign exchange.

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Another officer spoke up to show us the acute nature of the hand-to-mouth government financing in Brazil. Government employees may not be paid for weeks, or even for months. With such a shortage of cash, the government may dip into its pension funds. In other words, its financing is almost on a day-to-day basis. It is very precarious.

(A day or two later I read a story in the English language paper that President Kubitschek had ordered his Finance Minister to print money to pay the salary increases to government employees. The story rated only a couple of paragraphs on Page 2.)

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The Political Counselor explained that everything in Brazil in the field of politics right now "centers around the Presidential campaign." Marshal Enrique Teixeira Lott resigned his Army commission

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recently after 49 years in the army to be the candidate of the administration. As the key man in the army, he had pulled a coupe which wasn't explained, but which was necessary "to permit Kubitschek to come to power," - and Kubitschek had been wholly dependent on his support during the first two or three years of his administration. Marshal Lott is honest. He is anti-Communist. The Political Counselor asked a question: "Does he indeed know what a Communist is?" The Communists are supporting him in his current campaign. And he is running with Joao Goulard, the present vice president who is a candidate to succeed himself, who met us at the airport today, who is in bed with the Communists, and who is their Candidate as well as the candidate of labor. The Communists have taken over administration of many areas of Brazilian labor with Goulard's consent; he is lazy and opportunistic.

The opposition to Marshal Lott is Janio Quadros, former Mayor of Sao Paulo and former Governor of the State. He was described as a demagogue "who provided a conservative administration for the State of Sao Paulo, with a balanced budget, and who is now supported for the Presidency by most of the business community." Our Embassy is "worried about his views on foreign affairs." Mr. Quadros had visited the USSR, has had friendly relations with Khrushchev and he is going to Cuba next week. He is not a Party man but an individual operator.

I asked why the business community would support a man who seems so allied with Khrushchev and Castro. I was told that Quadros is a paradox. The Ambassador suggested that one of the grave questions now in Brazilian politics is "whether the fat cats will put up campaign

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money to back him." But they remember that he balanced the budget at the state of Sao Paulo!

Another candidate for president, the third, is Adehmar De Barros, present Mayor of Sao Paulo. He ran in '55 and polled 25% of the vote. Like Janio Quadros, he is a "personalist." He absolutely owns the Socialist Progressive Party. But he has lost influence due to charges of corruption which he does not deny. In Sao Paulo we heard stories about this. When accused of crookedness, he admitted that he had become one of the richest men in Brazil during his term as Mayor, but in effect he said, "Yes, I make lots of money out of politics but I always deliver to those to whom I say I'll deliver. (He sounds like the honest politician who stays bought!) I was told that he is prepared to spend a big part of his fortune in running for the offices from which he recreates his fortune. Recently he called for a Bible on a television program - because he was being accused of the fact he would later pull out of the presidential race - and he swore on the Bible that "he'd be in there at the end."

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The Ambassador called on the Information Officer who was present, seemingly the deputy of USIS, James Opsata. He gave us a routine and dull report. He says the Brazilians are heavy patrons of the movies and radio. He reported that there are 400 newspapers in Brazil and 300 radio stations, "all receptive to USIA materials." There are now five TV stations and TV is growing. He emphasized the 56 Binational Centers. Sixteen of these have "American grantees." 47,000 Brazilians are studying English in them. The big Center here in Brazil has 7,000 such students. Mostly, these Centers are self-supporting. And this lead to Dr. Arnaud, Cultural Officer.

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Dr. Arnaud spoke of the universities which are new and weak - with groups of faculties under a Rector - groups which haven't congealed - and which often don't give credits to each others students. He said that Mr. Kubitschek in a recent speech had promised a large new campus near the airport to the University of Brazil. Such a campus will bring the faculties together, which are now spread out all over the city. Professor Arnaud hopes for full time professors to replace those which are now part time. He even seems to hope for full time students to replace the part time students.

The Ambassador interrupted to explain that the students here are older than ours and are politically active, are Leftists and "unruly."

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The Labor Attaché, Mr. Fishburn, spoke up fluently and aggressively and so rapdily that I missed some of his material. Manifestly, he sees issues here more sharply than do many of his associates. He is more prepared to speak up energetically about them. (I think if I were to pick the attachés from all the embassies which we visited - those which I though could best advise me on what's what, and what will be what, I would think a long time before I passed over the Labor Attachés.)

Mr. Fishburn stated that "this society is run for a few families". He said, "They have no interest in the workers". He said, "Neither they nor their political parties are interested in their key problems." He suggested this is one of the reasons why the United States is so under attack. Here's an easy method to detract attention from the failures of the Brazilian aristocracy and its political henchmen.

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Mr. Fishburn explained that Vargas had set up the unions frankly on the Mussolini model. They are run wholly by the government. A union cannot be started here without a government okay. And the government decides all important wage matters. Thus the government connives when wage increases, during the last six months, fail to only 60% of the increase of the cost of living. (The inflation is like a heavy tax on labor and even more obviously on fixed incomes.)

Strikes are illegal here - in theory - in essential industries - but the labor unions are beginning to shortcut these laws. In recent months there have been "20 interventions" by the government in labor union affairs. The government has this kind of complete power over the unions. Further, it has great financial advantages in its dealings with the unions. For example, it collects all the dues - and keeps about 20% of them for its own private uses - returning to the unions only 80%. The government has a couple of hundred soft and lush jobs which it can bestow on labor union leaders who do its bidding. In this way and others, the government has a big carrot, as well as a big stick, which may keep it in control of the labor unions for many years.

However, the government does not use its power much. And this gives the Communists a major chance to develop. They have not been growing lately, but Mr. Fishburn thinks that the government power over the unions is sure to wane, and with this may come a further growth of Communist influence. He thinks that the labor leaders of Brazil are very restless under government domination.

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Mr. Fishburn says that the United States has excellent contacts with top union leaders and is using them to advantage. We sent 60 labor leaders last year for visits to the United States. Our purpose is a simple one: to give them appreciation of "our way of life." We send them to see our educational institutions. They learn that theirs are pitifully inadequate and deficient. We send them to visit our Pure Food and Drug Administration in Washington, and many other of our government regulatory agencies. They learn that we of the United States are deeply interested in American consumers - far more so, through our government, than is Brazil.

Mr. Fishburn feels that we are beginning to win over those who aren't dedicated and confirmed Communists.

(The Ambassador interrupted to say that we are also sending up deputies - and we have learned that their views "can be modified".)

Further, we provide the labor leaders with technical data and material - of great value and interest to them.

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We were told that the United States also has a program with Brazilian intellectuals. These are the men who "provide the ideas for labor and all others in Brazilian society." The Ambassador stated flatly that "This is the big area for our efforts." I asked him what concrete methods he had developed, He said that only today he had written a letter recommending that honorary degrees be given to some of these intellectuals. I jestingly commented that perhaps it would be easier to get them honorary degrees than to get them for Democrats

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in the United States - referring to the Galbraith and Schlesinger letter to the Harvard Corporation.

Governor Stevenson interrupted to break off the meeting. In response to the Ambassador's query as to our further interest, the Governor said that he would like to learn more about Communism and its activities here, more about the military, et cetera.

Dictated in Rio de Janeiro, Brazil
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LIST OF USEFUL TELEPHONE NUMBERS

		Home	Office
1.	The Embassy (Chancery)		52-8055
2.	Ambassador - John Moors Cabot	26-9150	Ext 428
3.	Deputy Chief of Mission - Niles W. Bond	27-6495	Ext 416
4.	Minister for Economic Affairs - Howard R. Cottam	46-7304	Ext 346
5.	Counselor for Political Affairs - Philip Raine	37-6108	Ext 376
6.	Counselor for Public Affairs - Aldo D'Alessandro	57-7805	Ext 427
7.	Counselor for Economic Affairs - William A. Fowler	37-8033	Ext 478
8.	Counselor for Administration - Sylvain R. Loupe	57-2997	Ext 424
9.	Supervisory Counsul General - William C. Affeld, Jr.	45-2250	Ext 423
10.	Army Attache - Colonel Clarence A. Langford	46-0162	Ext 410
11.	Navy Attache - Captain Morton Sunderland	47-0858	Ext 412
12.	Air Attache - Colonel William L. Gibbons	47-6949	Ext 398
13.	Control Officer - Edlow G. Parker	27-2547	Ext 243
14.	Mail - Delmer Hopfner	37-1641	Ext 294
15.	Nurse - Mrs. Dorothy Thompson	46-3976	Ext 356
16.	Hotel Copacabana Palace		57-1818
17.	Copacabana Palace Apartments		57-1820
18.	Hotel Excelsior		57-1950
19.	Hotel Ouro Verde		57-1880
20.	Hotel Serrador		32-4220
21.	Hotel Aeroporto		32-4280

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BRAZIL

Cat. #1719
Memo #82

March 23, 1960

VISIT WITH BRIGADIER LIMA IN SAO PAULO

Brigadier Jose Vicente de Faria Lima is the Minister of Public Works in the state of Sao Paulo. He's the man who Senator Morse told us at our breakfast in Washington, gave him the finest briefing of any one with whom he visited throughout his recent tour in Latin America. As we began our briefing, Consul General Burton told us that we did not have to take notes because everything that the Brigadier was going to tell us we would find in the attached booklet "Plan of Action" and the attached set of charts. Yet I did take a lot of notes.

The Brigadier's large staff sat around the table, some 30 or 35 people. They waited for questions from him, but he called on them but seldom.

(I take detailed notes at all these meetings and Governor Stevenson takes occasional notes; we have been told several times that one thing that has impressed our hosts is our intense interest in what we are told - to the point that we "take notes"!)

Brigadier Lima explained that the key to development throughout Brazil is highways. He said that in 1935 in the state of Sao Paulo there were only 700-odd kilometers of highways which were paved. By contrast, in the last two and a half years, 2300 kilometers have been paved. This brings the state's total to 6084 paved kilometers - more than seven times the total of 1935.

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Brigadier Lima explained that the Sao Paulo highways are only part of the national network. He showed us a map which demonstrated how the Sao Paulo highways are a "grid connecting border states with each other". He says that Sao Paulo has spent on its highways an amount equal to five percent of the total national budget.

He rolled along into railroads. He described the new engines- new ties - new gauges. The uneconomical railroad feeder lines are being replaced by paved roads. The Export-Import Bank is contributing to rebuilding of the railroads.

The Brigadier moved along into a description of the big aviation program. Great airports are being built which will take care of jets.

He then stressed power development, and of course this is on a long range planned basis, over a period of many years. The Brigadier told us that Brazil now has three million kilowatts, mostly in the states of Sao Paulo and Rio. Throughout the next 25 years they hope to increase the kilowatts by 10.8 percent per year. Thus they will double their power every seven years for the state of Sao Paulo. This poses a tremendous problem of financing. They need $300,000,000 in the next seven years. The Brigadier showed a map dotted with 24 projects in varying states of development. One project to be started this year will service a 400-mile area - with as much power potential as the total now in all Brazil.

(Many of the small projects on this map are admittedly very expensive and Governor Stevenson expressed surprise that Brazil,

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under such a well worked out plan, can still be building such small projects. Brigadier Lima explained, rather weakly and seemingly regretfully, it seemed to me, that these are "inherited".)

We were told that the power projects will "help industry to decentralize". Further, they will help the smaller cities to compete with the big ones. The projects include reclamation and irrigation and "even fishing".

Today the power output in Sao Paulo is 300,000 kilowatts by the state and 100,000 by private companies. Three years from now the state output will be 900,000 and the private output will be 431,000 kilowatts.

(My notes may be wrong here, and these figures need to be checked against the book.)

The Brigadier's plan, with these charts, rolled on into education. He explained that the shortage of classrooms in Sao Paulo calls for 40,000 new primary rooms - to accommodate 320,000 students on two new shifts - plus the replacement of 30,000 old and obsolete primary rooms which will take care of another 240,000 students on two shifts.

In addition, 1,100 secondary schools must be built for 110,000 students, plus 30 new professional schools for 7,200 students.

(The state is now carrying the whole cost for this program but is trying to get federal aid.)

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The Brigadier said that there would be electricity in those new schools - and there are plans for the use of film strips - but no plans as yet for motion pictures or television.

(He added that the army and air corps are now using motion pictures for teaching.)

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In the field of health, Sao Paulo is underwriting a program to develop 18,000,000 free bed patient days - over the next four years. Further, the state has a plan to eradicate malaria in 191 cities for 2,700,000 inhabitants. It is developing 72 centers for child care, etc., etc.

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Brigadier Lima described his plan for new jails, courthouses, houses of detention, penitentiaries, with seven new centers for juvenile delinquency, etc.

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I asked whether such over-all plans were being initiated by other states. He thought that they were by two others (of the 21).

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The Brigadier then spoke of the problem of agriculture and the need for training regional agronomists. He spoke of the need for agricultural loans, especially to help shift low quality coffee lands into cereals and other foodstuffs. This last is most important in line with the present projected increases in coffee production as new trees greatly increase old yields.

The Brigadier described the loans needed for small and medium sized industry - especially for mechanical industries. He wants a

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development bank for the state which will also be an export-import bank for the state's equipment industries. He urged the need of "new lines of credit for five to seven years to finance the sale of heavy equipment for export".

(He is not referring primarily to export outside of Brazil, but rather to Sao Paulo's exports to other states within Brazil.)

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Brigadier Lima referred to a "developed investment program for the next four years - from state sources, also from federal sources and from external sources".

He wants financing first and foremost for power and he has it neatly worked out - so many millions from the state - a given amount from the federal government, such and such an amount from the Export-Import Bank, etc.

The schools are to be financed wholly from the current budget and so too the highways. He has no plans for borrowing to finance these projects.

But for the railroads - here again he must borrow.

Thus there are two types of financing - direct financing from the operating budget, which pays as it goes along, and secondly, financing by capital which is borrowed.

The Brigadier explained that until 1952 Brazil tended to spend everything on consumer goods. From '52 to '55 it went into debt and got into trouble. Since '55, he told us, Brazil was trying to save in order to industrialize - "we are now industrializing at

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the rate of eight percent a year in the state of Sao Paulo". He admitted that agriculture, by contrast, was only going up 3.6 percent - and quickly added, "So now we are giving support to agriculture".

(The Governor of Sao Paulo later complained to Governor Stevenson about the failure to do justice to agriculture.)

Brigadier Lima concluded by telling us that the difficulty of getting credit "helps explain our inflation". He said, "We don't have the means to develop our resources - within the next 25 years we can expect to supply the world with beef - and on this alone we shall earn one half or one billion dollars in exchange per year - but we cannot get this program financed in the meantime".

(He admitted that some cattle suffered from hoof and mouth disease.)

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The slip I am attaching is in his own handwriting. It is his quick analysis of the engines for the Sao Paulo railroads. Nine percent of the engines are steam; 40 percent of the engines are diesel; 51 percent are electric. But Sao Paulo now only has the money to buy 12 new diesel engines, the cheapest kind to operate.

(Does that third column mean the cost per type of engine to operate? Forty thousand for each steam engine, 14,000 for each diesel and 15,000 for each electric? My notes show he said diesels were the cheapest.)

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Note: John Howe - please take the foregoing and have it examined in line with the set of charts and the booklet which I'm sending through. I think this is a fascinating case story of planning in South America. It's much the most interesting we've run into. Here we have the big boom state of Sao Paulo - the boom state for private enterprise - and it's the center of big time state planning. This seems directly to bear on Raul Prebisch's thesis as spelled out at such length in my memo on my meetings with him and his associates.

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BRAZIL

Cat. #1720
Memo #83

3/30/60

COMMENTS ON VARIOUS DISCUSSIONS ON

PRESIDENT KUBITSCHEK'S "OPERATION PAN AMERICA"

We called at the Foreign Office on the Acting Foreign Minister. Several of his associates were with him, including Ambassador Barbosa de Silva, the Minister of Economic Affairs. In response to questions from Governor Stevenson, he explained that the Operation Pan America, or the OPA, as they call it here, is designed to be the political implementation of the facts and plans developed by ECLA. OPA is designed to furnish initiative which ECLA lacks. Its ideas are to be implemented by the OAS, in cooperation with ECLA - and vice versa. The ideas and suggestions of OAS and ECLA are to be carried through by the individual Latin American republics at the political level, all of them helping each other. Much of this was pretty vague. Ambassador Barbosa de Silva explained that "the important thing about OPA is President Kubitschek and Brazil". This seemed more specific but is still hard to pin down. The Ambassador conceded that there was some rivalry between ECLA and OAS - and one of the jobs of OPA was to divide the work between them.

Governor Stevenson explained that he had been with the U.N. when ECLA was set up. He said that everything he was hearing now, on the need for OPA, he had heard at that earlier time in the U.N. - and this had led to the establishment of ECLA. The Governor explained that the Latin American countries had asked for ECLA and he asked whether Kubitschek was now proposing that it be abolished, or merged into the OAS as part of the OAS personnel. The Governor

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said that he couldn't figure out the extent to which OAS is supposed to function for OPA. Should the staff of ECLA be merged into OAS?

Ambassador Barbosa de Silva reminded us that Kubitschek had proposed his Operation Pan America after Nixon's visit to Latin America in '58. He reminded us of the letter Kubitschek had written Nixon to assure him that the unhappy events in Caracas were no indication of the way Brazil felt about the United States. The OPA was Kubitschek's suggestion as to how all the American republics "must get together".

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After we left this meeting, as we were driving to the next one, the Governor told me that in 1957, when he was serving as an advisor to Secretary Dulles and President Eisenhower - he had tried to persuade them to take more aggressive action in the field of economic development. The Governor feels that the Development Bank for South America, after the Nixon trip, grew in part out of the fact that we didn't think we could neglect South America while we were moving ahead with major programs in the Mid-East and elsewhere. The Governor feels that the so-called OPA doesn't seem to be a planning group but rather a form of propaganda - which pretty much boils down to political action to put pressure on the United States. I agree.

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Late one afternoon in Rio a group called upon the Governor claiming it represented the rough counterpart in Rio of the Council of Foreign Relations in New York. Most of the speaking was done by two men - a well known news columnist, Barreto Leite, and a young economist, Cleanto Paiva Leite.

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The meeting opened by presentation to Governor Stevenson of a magazine printed by the organization, a quarterly and now in its eighth issue. This is a scholarly type magazine of small circulation, financed in part by the government, and distributed to libraries and universities outside of Brazil as well as within. (I am securing a translation of an article from its current issue dealing with "Operation Pan America"; this is a subject of great interest to us here in Brazil, applied to Brazil's efforts to give leadership to Latin America.)

The news columnist, Mr. Barreto Leite, explained that Operation Pan America grew from a letter written by President Kubitschek to Vice President Nixon after his unhappy experience in Caracas. He said that most of the Latin American states had agreed with OPA - at least in part. He said the United States "formally agrees", (indicating his skepticism about U.S. enthusiasm). He said that the big point on OPA is that it makes Latin American development "a matter of priority". He pointed out that the Latin American countries can be built up much more rapidly than can India, where the standard of living is so very low, or Africa. Because the build-up job can be done in Latin America so much more quickly, he feels that it should be given a high priority by the U.S. Using the kind of terminology which Paul Hoffman uses in discussing the U.N. Special Fund, he spoke of setting a goal for a dynamic standard of living which would then enable the Latin American countries to make their own "break-through" - within ten to 20 years.

Western Europe, the United States and Canada are now "the bulwark of western culture". The speaker contended that they should

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be enlarged to include Latin America. He criticized the United States policy for giving "priority to the areas of communist danger". He feels this priority should be given to Latin America. He asked, "Who knows what the Asian and African countries will be like in 30 years?" The intimation is that our investment in such areas is very speculative in contrast to developing Latin America.

The speaker reminded us that we are living in a "period of fast historical change".

At this point Mr. Paiva Leite, a most articulate young economist, took over. He told us that he had been a principal advisor to President Vargas at the time of the President's death. He is now a Director of the Bank of Brazil. He was an employee of the United Nations for five years and he now represents Brazil on the Board of the Inter-American Development Bank.

He admitted that "in the beginning, OPA was very vague and fuzzy". He said OPA started as "a gesture to repair the damage of the Nixon incident" - "to give the United States a chance to reestablish its position in Latin America". (A most surprising claim!) But at the key meeting of 21 in November of '58 - a most important "blueprint of OPA was delivered". This blueprint "made the vague and fuzzy declaration something concrete". Now, what is the OPA blueprint, Mr. Paiva Leite asked rhetorically. It is:

1. The contention that the economically underdeveloped countries of Latin America are "the greatest obstacle to the development of friendly democratic institutions".
2. Their economic growth is bound to be small if the rate of growth stays at its present level.

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3. Without "a big push," - the present gap between Latin America and the rest of the western world will continue.
4. A "hemispherical program" is required which will raise living standards in Latin America - per capital to $400 by 1970.
5. At this point, the United Nations has estimated that the "take-off" period will begin. (The countries will then be able to finance their own continuing expansion.)
6. Brazil is economically two different countries. The acute problem of development is in the northeast with its 20,000,000 people whose per capita income is only $100. Here the growth in productivity is only 2.7 per cent per year which will yield a per capita income of only $110 by 1970. (I suppose this takes into account the growth of population.) In the south, the per capita income is $370 for 35,000,000 - and this great area is "about to reach the take-off".

These figures illustrate the serious imbalance of the northeast in contrast to the "moderately developing south". This imbalance, said the speaker, shows that "Brazil is repeating internally the mistake of the world at large"; Brazil is investing in the south - instead of the northeast - because the opportunities are greater in the south and there the rich are getting richer.

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The foregoing certainly does not sound like a "blueprint" but at this point Mr. Paiva Leite veered into a discussion of the new Inter-American Developmental Bank. He said that this was a new idea and that the United States opposed it over a long period of years on the grounds that there were already financial institutions to do the job outlined for the bank, institutions such as the World Bank and the Export-Import Bank. Throughout these years Brazil supported the U.S. position. Brazil felt that without United States support, it was silly to talk of any such bank. When the United States, in 1958, after the Nixon visit, decided that it wanted to set up the bank - Brazil immediately changed its own position and went even further than the United States by demanding even more capital than suggested by the United States. Today the positions of Brazil and the United States are at variance in attitude towards the bank.

(Governor Stevenson later commented to me that he thought the 1958 American proposal for the bank developed because of our plans for the Mid-East; that we did not feel we could move ahead with major developmental plans in the Mid-East while we continued to oppose the proposed developmental bank for Latin America. The speaker seemed to suggest that the U.S. changed its position because of the Nixon incident and more particularly because of President Eisenhower's proposed OPA. Mr. Barreto Leite, the new columnist, had interrupted to say that "the bank was the least the United States could do in the circumstances".)

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Mr. Paiva Leite fears that the bank will lack boldness. He feels it should make outright grants to areas such as northeast Brazil - or to Haiti - where there is little chance of repayment. (I thought this suggestion most ingenious - that Brazil be broken into two pieces so that one of them could receive outright grants which are not backed or supported by the credit of the Brazilian government, even in so-called soft currency.) Mr. Paiva Leite fears that U.S. policies toward the bank will be much too orthodox, too much "the old position" - that no loans will be permitted if private capital might be available. (This position means no loans of any kind to the oil monopoly, one of the biggest issues under debate in Brazil.) He admits that he accepts the Inter-American Bank as an improvement - "but it's a poor solution".

Mr. Paiva Leite emphasized that the basis for future economic development of Brazil must be in public works - such as power plants, ports, railroads, highways and transportation in general. Naturally, there's a very low immediate yield on such projects, if any, and this makes them unattractive to private capital. Such capital is naturally channeled to "consumer goods" which offer the quick profits and the big profits.

The largest profits should now be made, he says, in these basic public areas. (He did not speak of universities.)

Another aspect of economic development is its "social aspects". The speaker said that Brazil was "still passing" from a feudal system. Its income differences are "among the greatest in the world". A small rich group has "great influence over the government and perpetuates itself through this influence, continuing to enjoy

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an unfair share of the national income". Mr. Paiva Leite explained that the government, subject to these pressures from the rich, "becomes their agent". Other groups, representing the general population, such as the labor unions, "are just beginning to discover their power through elections and strikes".

The speaker emphasized that it was in the interest of democracy in Brazil to strengthen the government against the present power of the private sector which channels the income of the country "into conspicuous consumption". He asked: how can the government and the people capture the savings of the economy for the kind of economic development which is so urgently needed? I asked about income and inheritance taxes. The speaker explained that the income taxes on the middle groups in Brazil are roughly comparable to those in the United States, but the top tax bracket is only 50 per cent. Further, the rich people evade their taxes. The corporation tax is only 26 per cent. And inheritance taxes are very, very low. They are state taxes. (I presume the states cannot raise inheritance taxes or their rich citizens would move from one state to another.)

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Mr. Barreto Leite, the news columnist, took over again in an effort to explain to us the fact that the Brazilian government really has "the power". He said, "when the first settlers came here they immediately founded the state and thus the state was established before society was established". He contended that "the government is the most powerful capitalist". Although the railways in the early days were financed by foreign investors, they were only built through state favors and support - and now all but one of them is owned by

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the state. (The government took over the railways, we were told in Sao Paulo, because the private owners would not make needed investments for expansion.)

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In discussing power development, the Governor agreed that the day of private power probably was over in the new countries. He expressed surprise at the technological nature of the power developments described to us by Brigadier Lima in Sao Paulo. The Governor said that the Soviet Union had abandoned this type of power development in favor of another which is more efficient.

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Mr. Paiva Leite sought further to describe the nature of OPA, in response to a question. He insisted that it is indeed "something new - it is a state of mind". Governor Stevenson retorted by saying that everything he had heard about Operation Pan America, he had heard during his service in the U.N. from 1945 to 1947. This was when ECLA was set up. During this period, said the Governor, the hope was that the way to get the needed developmental job done - was through ECLA.

Mr. Paiva Leite replied that the spirit of OPA is that "we must get on with this". The Governor added that he didn't challenge this spirit but he would like to know whether a new international organization was contemplated. Or will ECLA personnel be merged into the OAS? Mr. Paiva Leite said that ECLA had done a fine job and that no new organization is planned. He said that economic thinking prior to ECLA "had been dominated by "the advanced and industrialized countries". He said that ECLA had reversed this. But what ECLA had not

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achieved and what OPA wants done - by ECLA or by someone else - is a blueprint of projects for each country. OPA isn't prepared to say who should develop these blueprints. Perhaps the OAS should do so. But unhappily the OAS has had "third rate people". It is being reorganized. It requires people with boldness. With the cooperation of ECLA, these new people can launch country by country studies. (Mr. Barreto Leite interrupted to say that ECLA was primarily a fact-finding body.)

Mr. Paiva Leite said that OPA's proposed country by country study projects would supplement the factual reports of ECLA. He said that OAS is now in process of making such country by country studies. Then it will be up to each country to take its own study and develop it. The U.N. Special Fund should assist and so too should the Developmental Bank. Presentations must be prepared, based on these studies, for the Inter-American Bank, the World Bank and the Export-Import Bank.

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I had to leave the meeting at this point to join Mr. Byington. He complained that the group on which I have just reported was very left wing and much too oriented towards a state controlled economy.

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BRAZIL

Cat. #1721
Memo #84

3/29/60

CALL UPON THE GOVERNOR
BY MR. AUGUSTO FREDERICO SCHMIDT
PRESENT - GOVERNOR STEVENSON, SENATOR BENTON AND DR. SMITH

Dr. Schmidt had been casually described to me as President Kubitschek's most intimate friend. His duties, I was told, have been as general world ambassador on behalf of Operation Pan America. He has a solid reputation as a poet and is a rich business man. He opened our visit by telling us that he had never concerned himself with politics until introduced to them by his friend, President Kubitschek. He referred to his major business as that of operating supermarkets and he added self-confidently, "They are doing very well". I'm attaching a letter which he wrote Governor Stevenson last October. He spoke continuously and rapidly in French for an hour and a quarter or more. He was eloquent and belligerent. (Hickman Price later told me that he was violently anti-American.)

Mr. Schmidt complimented Governor Stevenson most extravagantly throughout. He said that everything that the Governor had ever written "has encouraged Operation Pan America". He said that President Kubitschek has made speeches "repeating much of Governor Stevenson without knowing it". He referred specifically to the President's recent speech to the U.S. Chamber of Commerce here, which I am attaching. When I asked him who had written the President's speeches, he modestly admitted that he had.

Mr. Schmidt told us that he was about to become the new Brazilian Ambassador to the European Common Market. When Governor Stevenson indicated surprise, he said that his job in this new role

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would be "to explain the OPA to Europe" - and to develop Brazil's trade with Europe.

Mr. Schmidt spoke in high terms of President Kubitschek, telling us to "make no mistake - Kubitschek is very smart - the smartest Brazilian politician in a long while".

In some way which I did not understand through the translation, he tied this up with his argument to Governor Stevenson. "This is why you should explain OPA when you return to the United States".

Mr. Schmidt gave us the customary explanation of the background: the OPA "flowed from an act of friendship" by Brazil towards the United States after the Nixon incident. President Kubitschek had personally wanted "to do something about the Anti-American feeling". Much of the misunderstanding of OPA is due to the stupidity of our State Department. Dr. Schmidt said he had spoken twice to Secretary Dulles about OPA and that the Secretary was "preoccupied with helping Russia - without knowing it". This caused the Governor to chuckle to himself and to say to me, "a melancholy experience". And it reminded the Governor of the fact that Khruschev had told him that he would hope that the Democrats would win - if only we would promise to keep Dulles!

Mr. Schmidt charges that Secretary Dulles told his underlings in the State Department to sit on their hands, that Kubitschek's OPA was "a plot to get money from the United States". Mr. Schmidt said that he knew positively that there had been personal and most violent disagreements and arguments over OPA within our State

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Department - which did not even show common courtesy in dealing with President Kubitschek and Brazil - although some of our officers did indeed give "lip service".

He begged us not to confuse OPA with money, saying emphatically, "Don't speak of money!" In lofty tones he assured us that OPA was designed not to let the Democratic experience die in Latin America. He added, "And everyone is depressed by Washington's reaction".

As opposed to the time of President Roosevelt, when Brazilians enjoyed "direct contact at the top" - in recent times they have been blocked off by a man named Siracusa who controlled the Latin American desk in the State Department. President Kubitschek did indeed have a chance to try to explain his OPA to President Eisenhower on his recent visit, and President Eisenhower "showed good will" but Dr. Schmidt fears that Eisenhower "doesn't know what it is all about".

Milton Eisenhower came into the general indictment. Due to his background at Johns Hopkins, perhaps, Dr. Eisenhower seems to think that the OPA is "just philanthropy". But it is not. Further it is not a scheme for the United States to purchase good will. Nor is it "a toy or a plaything". Nor is it a question of "gifts". Nor does it mean forming any new organization. Dr. Schmidt emphatically "doesn't want to create more jobs that will accomplish nothing".

Dr. Schmidt built up to his climax. He stated flatly and rather triumphantly, "OPA is a political policy". He contrasted it to OAS which "gives cocktail parties and accomplishes nothing in the economic field".

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Explaining nothing further about his concept of what OPA actually is, Dr. Schmidt switched the subject and said that he would now speak of Brazil-United States economic relations. These are decreasing. German trade and prestige is growing. The new Brazilian industries, financed outside Brazil, are largely European. Remembering Mr. Byington's comments about the rapid growth of Polish trade here, I asked about it. Dr. Schmidt replied that the Poles give credits on steel and machinery which "no American would dream of". He told us of a steel plant which is to be paid for over eight years, offered by the Poles. And the payment is to be with coffee, cocoa and other farm and manufactured products from Brazil.

We expressed interest in such offers and in response to a request from the Governor, Dr. Schmidt promised to give us a list.

Dr. Schmidt went on to say that "private initiative in the United States has not changed". He says that "it repeats the same difficulties and mistakes, regardless of new conditions". He warned that if things go on as they are now going - "within ten years Brazil will take the dollars it earns by selling you coffee and use them to buy machinery in Europe - the terms offered by the Europeans are so much more favorable". Yes, German cars, tractors and chemicals are rapidly taking over the Brazilian market.

Why, Dr. Schmidt asked - why doesn't American enterprise show "more skillfulness?" Competitive conditions for U.S. industry are the same all over the South American continent, but they are at their worst in Brazil. European industry at one time was far stronger in Brazil than United States; then American business surged to the front; but now it is losing out. Today Brazil buys from the United

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States only what Europe cannot supply. The United States is not competing successfully with Europe's lower prices and better terms.

Yet Dr. Schmidt insists that Brazil wants to do business with American private industry. (Even though in his opening remarks he told us he was going to Europe to stimulate Brazilian business in Europe and with Europe!)

Why doesn't the United States government, he asked, help American firms? He has proposed that we underwrite credits for our companies, as do the Germans, the British and others. He has urged this upon the State Department. But he gets no answer. I told him that such a policy would require an act of Congress, but he disdained to comment. When I told him that I thought the American business community would oppose such a governmental policy, at least at the present time, he emphatically told me I didn't know what I was talking about - that indeed the business community was unanimously in favor of it. He suggested he never met a businessman who didn't favor it. I told him that I didn't believe General Motors would want the U.S. government financing Kaiser and Willys in their efforts to develop export business in Brazil and I was sure that du Pont wouldn't want to finance "Stevenson and Benton" in their efforts to develop an important new chemical enterprise, with U.S. government money, selling our chemicals to Brazil. He either disagreed or wouldn't listen.

(Later when I ran into Hickman Price I asked him about this and he thinks that there are possibly a majority of American companies who might favor the kind of U.S. policy Dr. Schmidt advocates, but he agreed that the big companies

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such as General Motors and du Pont would oppose it. I doubt if Hickman Price is right. However, when I used to deal with the NAM it was the big companies that controlled NAM's policies and statements. Mr. Price admitted there was a group in New York which had been advocating such governmental policies for years "but had gotten nowhere".) Dr. Schmidt softened to tell the Governor that he regarded his conversation with him as historic. He said the Governor was in a position "to get through" to explain OPA to the people of the United States when he got home. He said, "Brazil is convinced that we cannot survive merely as an exporter of primary products". He explained that everything is against such a future for the Brazilian economy. Technology is against it. Perhaps coffee will shortly be produced in a laboratory. Dr. Schmidt spoke poetically, "You go to the moon while we grow coffee". He spoke of Brazil's "terror" at being separated from the developed countries. He explained how Brazil "fears it is being out-distanced more each day".

With eloquence, Dr. Schmidt emphasized that the word "development" is a major word to the people of Latin America. He said they felt that "social justice could come through it." Taking money from the rich to give to the poor isn't enough, and the people know this. They know that they must develop their countries economically. Yes, the two magic words are - "social justice" and "development." Dr. Schmidt added emphatically, "we shall get development either through socialism or through democracy!"

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We returned to the subject, what exactly does OPA mean? Dr. Schmidt started out moderately enough, "As Americans I understand that you want a practical definition." Then he provided a definition which seemed to me far removed from the practical.

He said that OPA means that he wants the United States "to accept a new policy; and this you have not done yet." He added, "If you think of financing only, then all is lost." He told us that he wanted the United States "to accept a general climate." This climate he defined as helping the countries of Latin America to "a climate of hope". He told us that we in the United States were in grave danger. We must thus work together with the countries of Latin America for the future of all of us.

We pressed for something more specific. With a laugh, and he didn't laugh much, he said that up until now he had been the theoretician of OPA. He produces the "big objective". He doesn't think he should be called on to spell out the details! He can't tell how any particular set of details may work out - but the big objective should remain constantly before us.

(I was reminded of Will Rogers' story in World War I. He said he would get rid of the German submarine menace by bringing the Atlantic Ocean to a boiling point which would kill off everybody in the submarines. Rogers remarked, "I have now given you the big idea and it's up to you to work out the details".)

Dr. Schmidt told us that during the decades we in the United States were busy making money - "we in Brazil were defending ethical and literary ideas." He said it was therefore now up to the

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United States "to teach Brazil how to take advantage of our own riches." He said that he had proposed "a congress of productivity" to be called by the United States for all of Latin America. But this too had been turned down by the State Department. He said that what Latin America needs is a "mystique" of work.

Seemingly seeking to become more specific, he suggested that the Inter-American Bank needs to be changed into a "source of know-how." Let the bank bring new techniques, he urged, to Latin America - let it help educate Latin America for the new age.

(There was no mention throughout the meeting of the United States extensive technical cooperation program with Brazil under which we now have over 150 United States technicians and professors in Brazil, working on four joint U.S.-Brazil services - working with federal, state and private agencies and institutions throughout Brazil. Nor was there any recognition of the U.S. funds for technical cooperation in 1960 totaling 6.6 million dollars, nor of the total spent since the start of the bilateral program in '42 which will exceed $50,000,000 by the end of 1960. Nor any recognition of the $8,000,000 being spent to eradicate malaria in Brazil, etc. If Dr. Schmidt knows of such activities on the part of the U.S. government, he gives no recognition of them.)

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Governor Stevenson spoke of the failure in Brazil to change education from "the feudal to the modern." Dr. Schmidt agreed but

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did not suggest anything to be done about it. However, he contended that ten years ago "no deputy ever spoke of economics." By contrast, OPA is now popular. It was even represented in the recent carnival by a special float. (This didn't seem to me to be a symbol of economic recognition by the Brazilian people - but rather a symbol of hoped-for favors from the United States!)

Governor Stevenson asked Dr. Schmidt to expand his idea of the Inter-American Bank as a source of economic education. Dr. Schmidt said that he didn't want to turn the bank into a philanthropy and that if he had real influence with President Kubitschek - he would have "done much more to supply experts to Brazil." Dr. Schmidt said that 50 times as many experts are needed as are at present at work in Brazil. And he thinks the Bank should provide the top flight experts. Brazil, he says, is losing 50 per cent of its agricultural crops through inefficiency - and Ecuador half of its bananas. He would like to see the Bank finance commissions of technicians for studies of agriculture, of transportation, etc. (It sounds to me as if he's expecting the Bank to act as if it isn't a bank - expecting bankers to act as if they weren't bankers.)

Governor Stevenson kept at him. The Governor explained the importance right now of developing "a specific program" which would be understood. He told Dr. Schmidt that such a program was "particularly important in the United States." The Governor said that he thought the time was now ripe in the United States for consideration of such specifics. He said warningly, and significantly, but with a smile, "We must not lose the present chance in a flood of oratory - we must be careful not to lose it in a flood of words that never jell".

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The Governor expressed the strong hope that Brazil would take the lead with "specific proposals and a program".

Dr. Schmidt fairly shouted his disagreement. He said that the idea to get across is that plans will be made later and only then "we shall win the victory". He wants the whole subject thrown open for discussions and for specific ideas of the United States. Then he added in a spirit of accommodation, "We do of course have concrete ideas but they are not all in my head right now". He suggested he held no special brief for them. "If you don't like them, throw them out". He asked the Governor to give a lecture on the "general idea" when he returned to the United States. He said the theme of this lecture could be summarized in two words. He explained that "the Latin countries want an objective plan, a practical and actual plan - and do indeed want to be serious and not just picturesque". He emphasized that what was wanted was in his two words, "objectivity and actuality".

Dr. Schmidt resisted my suggestion that such a lecture in the United States would be greeted with questions. Why is Brazil spending 40 per cent on armaments? He dismissed this question with the curt rejoinder that the army was a very powerful political party. Why aren't the rich people taxed in Brazil? He dismissed this with the statement that our rich people paid much too much in taxes, and that the Brazilians needed to develop capital.

He said he would like a gathering first of nine countries and later of the 21 American republics. In 1958, he made a speech in Washington which was badly misunderstood, yet nine months later Secretary Dillon repeated the speech - and later Nixon did the same.

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When he tried to produce a plan in 1958, as he did, the State Department dismissed it with the one word, "Impossible". Dr. Schmidt thinks it unwise right now to talk in specific terms, (assuming that he does indeed have them in mind). And he added, "It's Utopia to think about disarmament until Latin America can get rid of its military cliques".

He urges us to quit talking and thinking about money. And about specific plans. Let all such come later "when we start thinking correctly, when we are re-educated, and then we won't need help from anybody!"

Dr. Schmidt assured us that he is now struggling to develop a real economic plan for Latin America. He suggested he would like to call it the Stevenson Plan! He said that the Europeans "had made the Marshall Plan" - "and we must make a plan for Latin America." He wants a plan that is "an instrument of reason" - and "with no element of finance".

As we were getting up to leave he mentioned the "question of petroleum" and dropped it immediately. He repeated that the objective of OPA is to persuade the United States "to help us understand ourselves".

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Later

The foregoing was dictated shortly after our meeting with Dr. Schmidt. The following is dictated the same evening, after a dinner given for the Stevenson party by Mr. Bond, the Minister of the Embassy.

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Ambassador Cabot warned me that Dr. Schmidt speaks in authentic tones for important groups in Brazil and throughout Latin America. He says that everything would be exactly the same, in relation to the United States, if Dr. Schmidt dropped into the Atlantic Ocean. This I think is obvious. More interestingly perhaps is the suggestion that Dr. Schmidt may be acting deliberately, or possibly even at the suggestion of President Kubitschek, as a kind of agent provocateur in dealing with the State Department. He may figure that a good thorn in the side of the State Department may prove highly beneficial to Brazil.

The Ambassador says that the committee of nine of the OAS which is now debating OPA and its proposals - will lead to further discussions by the committee of 21, the representatives of all the members of OAS - and that studies are being made in line with my report in another memorandum of our conversation with Mr. Pavea Leite - on the needs of each and every country. (I do not understand the inter-relations between Erosac, the U.N. Special Fund, OAS and its sub-committees, and ECLA. I wonder who does! All of these various groups are involved in implementing OPA.)

After listening to the Ambassador, I am even more sure that Dr. Schmidt and "his authentic voice" should not be discounted. Whether he is a deliberate provocateur is a question I'm unable to decide.

The Ambassador emphasizes that the Brazilians have great pride. Right now floods are pouring through the northern areas to the point where one of the great public works projects, a big dam, may burst. As many as 200,000 people can lie in the path of this

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torrent. The Ambassador has asked the Brazilian government whether it will accept help. He has spoken of helicopters and food. The great need will be for transportation. The Brazilian government won't as yet admit that it needs help. Under American law, seemingly we can only intervene at the request of the Brazilian government.

(In my article I might mention the fact that I was in Europe at the time of the great flood in the Po Valley in 1951. I secured an airplane from the U.S. Army to tour the Po Valley with the seven Senators from the Conference on Europe - and set up an organization subsequently for Po Valley Relief - and later received a decoration by the Italian government - the highest it gives to a foreigner. Mr. Cottam was in Rome at this time and remembers the incident. I think some such dramatic move might be indicated here in Brazil if the dam really breaks and the flood ensues. Ambassador Cabot says that this dam is an example of Kubitschek's determination to do more than he should - of the way that his reach exceeds his grasp. He saved money on the dam, we were told - for Brazilian highways, etc. The engineers wanted it higher; he decreed it lower.)

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The Ambassador suggested that a part of Dr. Schmidt's and President Kubitschek's objectives may be to switch discussions with the United States from "multilateral" discussions to "bilateral" discussions. I did not have a chance to discuss this enough to understand it in any depth. But I'm mindful of the rapid transition

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Dr. Schmidt made in our visit, when he suddenly switched directly to the relations and activities of American business firms in Brazil.

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Brazil

Cat. #1722
Memo # 85
3/26/60

QUICK COMMENTS GROWING FROM THE DINNER AT MR. BOND'S
(MINISTER IN THE EMBASSY AT RIO)
ATTENDED BY GOVERNOR STEVENSON AND PARTY

Ambassador Cabot quoted Mr. Espinosa, head of one of the big parties of Colombia, "If we educate the masses, we are lost". He said that this attitude was "fundamental in South America". I feel this is an important point for me to make in my article.

The Ambassador and his Economic Counselor reported that one thing that is held against American companies throughout South America is that they do not try to shield their employees from education - they pay them better, often even keeping their wages up to the rising costs of living, giving them so-called fringe benefits, etc. Many other Latin American employers and industrialists resent this.

I was reminded of the early hatred of Henry Ford by Detroit industrialists because he instituted the $5 day back before World War I or thereabouts.

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Ambassador Cabot pointed out that India gets 40 percent of the money available under Public Law 480 - in outright grants. Brazil doesn't. The 480 money is handled with Brazil as loans. Ambassador Cabot points out that Brazil traditionally is America's most friendly and intimate ally in the hemisphere. India is "the neutralist country". Naturally this difference in policy by us causes unhappiness here in Brazil. And I myself don't understand it. Perhaps the explanation is the series of influential ambassadors

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we've sent to India - Bowles, Cooper and Bunker! (I rather figure it's unlikely we shall ever collect the loan money from either country.)

The Ambassador mentioned that the Export Import Bank charges six percent for its money here in Brazil, and earns big profits on its loans. The Soviet Union only charges two and a half percent.

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On the subject of the urgent need for our technicians and experts here, Mr. Cottam told us that the United States has 25,000 trained geologists and Brazil has only 100. This helps explain why Brazilian oil resources have not been explored and investigated.

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Mr. Cottam seems to agree with President Alessandri of Chile that the ECLA staff - if not communist infiltrated - is at least "oriented" toward state control and away from private initiative. I do not think that Mr. Probisch's memorandum bears this out. Indeed, in his memorandum he pays tribute to private initiative again and again. Perhaps this is because he is so sensitive to criticisms of this kind. Our Ambassador in the Argentine criticized Probisch and ECLA for "statism". (See my memo on our visits with Probisch.)

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Mr. Cottam pointed out that our technical assistance program is "a pittance" in contrast to Brazil's needs. Further he pointed out that part of it is geared to our own selfish interests - such as the major segment devoted to aviation control or the weather

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(I didn't get exactly what in this general area). He reminded us that our malaria program here is part of a world-wide program. And the Ambassador gave a warning that is needless, at least in my case, but that I think I should mention in my article - that we of the U.S. should not look for gratitude or expect gratitude.

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Mr. Heuer, who for five years was Assistant Legal Counsel of the USIA in Washington and who is acting here as our Protocol Officer assigned by the Embassy, says it's perfectly obvious that the USIA should be merged back into the State Department. He said that Ted Seibert was a good administrator who made decisions instantly but that Mr. Larson was such a bad one that he allowed the papers to stack up on his desk until they were several feet high. Further, he says, Mr. Larson was a most unhappy and ill-advised politician whose speech in Honolulu helped destroy him. Mr. Heuer advocated the setup in the State Department, which I recommended in my testimony to the Foreign Relations Committee in 1953, of three under-secretaries, one in the diplomatic field, one in information and cultural activities, and one for economic affairs.

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Our Economic Counselor, Mr. Cottam says that Kubitschek's "Achilles heel" is his lack of courage.

Mr. Cottam further told me of the many economic studies which have been devoted to Brazil and its development. For instance there was a U.S.-Brazil Economic Commission which terminated in '53 when the U.S. refused to put up the money to finance the

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recommendations. This turned up a veritable "five foot shelf" of recommendations. These were basic to Kubitschek's goals in his last campaign when he promised "50 years progress in five years". After his election he brought in a group of "solid individuals" who worked together in a bank, the BNDE - and they set out to implement these recommendations.

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Cat. #1723
Memo #86

3/30/60

MEMORANDUM ON THE DINNER TENDED TO GOVERNOR STEVENSON
IN RIO DE JANEIRO BY ACTING FOREIGN MINISTER ALENCAR

I'm attaching the speech of the Acting Foreign Minister Alencar and it's another example of Latin rhetoric. Perhaps I shall want to comment on this rhetoric, so characteristic of these countries, in my article. I've always been amused at the Latin Americans who list themselves in their biographical material as "orator", something no American or Anglo-Saxon would think of.

I've heard the Governor give at least 50 or 60 extemporaneous speeches on this trip and he never repeated himself until tonight. And tonight only briefly. This is the second time I've heard him say that he once responded to a most flattering introduction with the comment that he did not know whether "the toastmaster would go to heaven for his charity or to hell for his falsehood". Very deft indeed. The Governor said that the great issue throughout Latin America is whether the great goal of democracy will prevail. Shall we have the triumph of government "by the consent of the governed"? This is indeed an apt generality - and I'm going to need more such generalities in this article!

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The offices of the Foreign Ministry surround a great and beautiful courtyard dominated by high palms and containing a large, beautiful fountain - pool. At the far end is a Roman type columned portico, a building of 1930 vintage which is said to house an exceptional library. Down the left hand side runs an old colonial

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palace which has been remodeled. The front end, where we had called upon the Acting Foreign Minister the day before, is a palace built in 1842 called Ita Maraty. The Foreign Office is so well known by this name that this will probably cling to it when it moves to Brasilia. Like the Quai d'Orsay, the name is synonymous with the Brazilian Foreign Office. This palace is known to Brazilians as "the Palace of the Golden Boy." Its owner, in the middle of the last century, had a son who was very sick. He pledged the son's weight in gold to the church if the boy recovered - and the boy did! As we left we were taken into a room to see the very badly done oil portraits of Brazil's three emperors. Emperor Pedro II, who ruled for roughly half a century before he was deposed in 1889, is much revered and by everyone. He held this great country together and this was no mean trick; there were countless secession movements. When he was deposed in a movement led by a man named Comte, he was so much respected that he was offered five million cruzeiros. He refused with the statement that the country needed the money more than he did. His family was permitted to keep their land holdings which included the whole of the fashionable town of Petropolis. His great grandson lives in Petropolis today and makes his money whenever a piece of land is sold because his permission is necessary and he collects five percent of the sales price. Because this prince's mother was merely a countess, her marriage was regarded as morganatic, and the theoretical heir presumptive is a cousin who is a cattle rancher in Paranha. The pretender's brother is a colonel in the Brazilian Air Corps, Colonel Orliof, known as Prince Juan.

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I asked about the number of supporters of the alleged pretender and was told they were 11 in number, his 11 children. The whole royal family seems to be held in affectionate regard. It is the only family in the country that retains its titles. Emperor Pedro II would not permit the inheritance of a title by a son - and I was told that this is one reason why the royal family did not develop a strong and loyal nobility as supporters.

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At the dinner, I chatted with a bright young Foreign Service officer, Vladimar Murtinho, who is the head of the Cultural Relations Division in the Foreign Office. He lived a lot of his boyhood in Ecuador where his father was the Brazilian Minister. His sympathies are obviously on the side of the Ecuadorans in the present dispute with Peru about the boundary. He says that Peru won the war of 1941, took 95 percent of everything under dispute, and now refuses to yield on the other five percent. He took me to a man who was personally present when the Ecuadorans signed the Rio treaty in 1942 at 2:00 o'clock in the morning. They were under heavy pressure from Brazil to do so, and some pressure also from the United States. Peru had continued to threaten Ecuador and Ecuador was prostrate. Brazil in effect told the Ecuadorans to sign the treaty or Brazil could not answer for what happened. As the Ecuadorans signed the tears streamed down their faces. They knew that their own personal fate in Ecuador would be to be accused of treachery, and indeed today they are regarded as traitors. This young man says that the Peruvians are "formalistic", and this is precisely the impression I received in Lima; he finds them

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stubborn and stiff-necked; they are so set on this issue that they now refuse to have any commercial relations with Ecuador. The only goods today that come into Peru from Ecuador are "contraband". (This astonishing statement will help explain why Galo Plaza wanted normal commercial relations with Peru, thinking these would greatly help to settle the border dispute.)

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The Acting Foreign Minister at dinner told me that Brazil is very proud of its Foreign Service which has a tradition of more than 50 years. There are 46 career ambassadors and six who are serving as appointive ambassadors. At times there have been as few as two or three political appointees, with all others from the professional career service.

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This is for me, and for our Ministry of Foreign Affairs, a particularly gratifying occasion: we have with us, tonight, a distinguished American statesman - Governor Adlai Stevenson - who, with the members of his suite, has arrived in Brazil after visiting several countries of Latin America.

I do not believe that there could be in the United States any other political personality who, not having occupied yet the Presidency of his country, enjoys among us a wide popularity and intellectual prestige as Mr. Adlai Stevenson, whom we have the great honour of receiving this evening.

The admiration and the affectionate interest with which the Brazilian people welcome our eminent guest is not only due to his outstanding intellectual acumen and the refinement of his culture, nor can be exclusively attributed to the impact throughout the world of his great personality - the personality of a man who has run twice, with unsurpassed brilliance and gallantry, for the Presidency of his country and is today as before the living depository of the respect and hopes of millions of fellow citizens.

We are quite aware that we have with us, tonight, a man of great learning, an active thinker, a master of rare intellectual subtlety and wide cultural background, to whom the problems that beset the modern world appear through an ecumenical vision impregnated by a deep sense of human nature and individuality.

Moreover, what makes the personality of Adlai Stevenson particularly attractive to us is, it seems to me, the fact that our distinguished guest is well aware, as far as international

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problems are concerned, that it is urgent and necessary to find a solution to the plight of the underdeveloped nations, lest we all face tomorrow the shipwreck of democracy and the twilight of freedom.

We have read many of his books, speeches and lectures, finding them to be the authentic work of an honest and sound political thinker and scholar. Addressing his countrymen on international relations, he impresses by the wisdom of his concepts, the sincerity of his statements and the courage to stand for his convictions. He suggests, he warns, he criticises or he defends, whenever he thinks appropriate, and in doing so he shows the exact measure of an independent mind.

There are many chapters of his books dedicated to Asia. He has seen that continent and apprehended with incredible accuracy the aspirations of a mystic and long suffering people. He travelled throughout Russia and came back with a complete analysis of the life of the people and the mechanics of the government in the communist world. Having extensively heard and seen, his conclusions are pieces of advice that represent a wonderful contribution for the understanding of the desperate problems of the modern world.

And now that you have come to Latin America you have closed the circle of your international studies. You arrive at this continent on the precise historical moment. The Latin American nations that already have a democratic tradition and that have the task of improving its political institutions, are perfectly integrated in the Western World. We have lived through ethnical, political and social

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problems for which we have been striving to find adequate solutions. We are now facing the most serious problem of our lives - the problem of economic development - for we are convinced that of its solution depends the maintenance of democracy and freedom in Latin America. What this hemisphere is lacking is a new vision, a more realistic and objective vision; a new and dynamic continental concept, taking into consideration what those countries have in common and respecting its national characteristics. It is important to offer a new sense of purpose, a perspective of hope to the Latin American peoples. They need to abandon its situation of mere exporters of natural products in order to strengthen their positions so as to be able to fight for freedom.

Allow me to quote here, Mr. Adlai Stevenson, your own words when, writing about Asiatic nations, you said: "millions of people desire today a better life, having found out that poverty, hunger and sickness are not the immutable destiny of man".

This is exactly what the Brazilian Government has been insisting on since May 1938 when President Kubitschek, interpreting the unanimous feelings of all Latin American Nations, launched the Pan-American Operation. His main purpose has been, precisely, to emphasize the fact that we cannot dissociate the concept of collective security and democratic perfectioning from that of economic development and consequently that of social justice, considering that it would be unwise to conceive a defensive organization based upon a weak economic structure and conditions of underdevelopment.

The Brazilian Government has been insisting that it is necessary to eradicate, through a wide and bold economic policy, the

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evils of underdevelopment in order to demonstrate that it is possible to achieve prosperity and social justice without sacrificing the freedoms of democracy and without resorting to the brutal and inhuman planning of totalitarianism.

Greeting tonight a statesman who, I am convinced, is still going to play an important role in the political life of his country, specially in the field of foreign affairs, I take great pleasure in recalling that, upon his return from the Soviet Union, Mr. Stevenson wrote: "I came away from the Soviet Union more convinced than ever that the battle of the future is economic and political..." I dare to foresee that, after visiting Latin America, our guest will take back to his country the conviction that not only Asia and Africa are the battlegrounds where the forces of freedom are fighting the force of tyranny but that this hemisphere, our continent, traditionally allied to the United States and so justly proud of its love of freedom, is also threatened by the foes of democracy, and that it will be able to remain as a bulwark of the West provided the process of its economic development will be accelerated within the framework of a new and more dynamic conception of Pan-Americanism.

Mr. Adlai Stevenson - in your person I welcome one of the highest expressions of American statesmanship and I make my best wishes for your personal happiness and for a continuous strengthening of the friendship and cooperation between Brazil and the United States.

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BRAZIL

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Memo #87
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MEMORANDUM ON VARIOUS MISCELLANEOUS ITEMS

FROM RIO DE JANEIRO

"Favella" is the Rio name for "slum". It's a beautiful sounding word. This was the name of a mountain which became spotted with shacks for the very poor - squatters who developed some rights by the mere fact of occupation. Later similar developments sprang up on the many mountainsides of this beautiful city. Right behind the big, lush, expensive apartment houses are these masses of shacks running up the mountains and at a distance they look as if they are built on the roofs of each other - each layer, one right above the other, on top of the one beneath. These shacks have no sewers, no water, but many have electric lights. Unpaved, little muddy paths wind up among them. We visited one which seemed largely inhabited by Negroes, not because of racial discrimination, but because the economic lot of the Negro is lower.

All these slum areas are known as "favellas" - after the first one. Estimates vary on the number of Rio's inhabitants who live in such squalor. It's agreed that they number 200,000 at minimum. Estimates run up to one-sixth or one-quarter of Rio's population of 3,000,000.

Each of these beautiful cities of Latin America is infected with terrible slum areas. The slums are characteristic of all the big cities we've seen with the exception of Sao Paulo. They are the blights in these great communities. Offsetting these blights is the unexpected energy and vitality of these Latin American cities. They aren't the sleepy towns of the O. Henry short stories. From Mexico

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City right straight through Medellin and Santiago and Buenos Aires and Sao Paulo - I have been astonished at the general spirit of get up and go, of enterprise and imagination and business determination. This is the new spirit of Latin America.

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I met a professor whose card is around somewhere and whose name I'll give later, a professor of Brazilian literature at two of the universities here. He can't earn enough money at either one to support himself. I asked him about his students. Are they lazy and worthless as alleged by some observers of Latin American students? He says no; that the students can't be characterized so devastatingly. But then he laughingly said that what the South American universities need isn't the kind of visiting professors often recommended in high level reports - but rather young men who are unmarried, who will come down and live with the students. He says the Rio students are clever enough but they need these young United States students who are experts in the "methodology of study". This was a new phrase for me! (I think maybe we'd better send down some of our girl students to help impart such expert insight!)

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Herman Smith's extraordinary associate in Rio is Dr. Celso da Rocha Miranda. Talking about inflation at the wonderful dinner he gave us at his intimate club, he estimated that it is roughly comparable to a ten or 15 per cent extra tax on the workers. Now this is a most interesting estimate. It helps explain how this steady inflation is helping to finance this boom economy, and why so many rich people, including bankers and industrialists, are for it. The Governor and

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I have marveled at the way the leading bankers and industrialists rationalize the inflation here, the very groups who most energetically oppose inflation in the United States. And whereas our labor unions and many so-called liberal groups advocate federal policies which will stimulate the general level of productivity, even at the risk of a little inflation, independent leaders of the labor unions here in Brazil want policies followed which will eliminate the risk of inflation. (And thus eliminate this form of so-called regressive tax which bears so heavily upon them.)

Dr. Miranda points out that the inflation has also penalized greatly the landlords, who are handicapped by rent control as in Paris - and whose income he estimates has been reduced to something like one per cent of return on their capital. The landlord's only good chance, he says, is to liquidate - if he can find a buyer, but this isn't easy because real estate is not a good way to hang on to money in this inflationary economy.

Dr. Miranda points out that the inflation has "obliterated" the fixed incomes of groups dependent on them; it has "obliterated all life insurance". This is accompanied by terrible injustice.

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I sat around with a group of businessmen in Sao Paulo trying to figure out what we could do with a million dollars - to preserve its purchasing power five years hence - assuming that we knew absolutely that money would continue to depreciate at 50 per cent a year. There wasn't one of these men who had any sure remedy. Even Swiss francs are under pressure, said one. The money can't be protected in Brazil by putting it into land or real estate. The only chance, they agreed,

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is to keep it in one's own business, "and keep it turning over as fast as possible". The fever has been biting into this economy for 20 years and although the cost has been frightful and bitter to many groups in the economy - this one prescription has been generally followed by the business community - "keep turning it over and over".

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The Mercedes Benz management whose cars we watched coming off the assembly line add 36 per cent to their sales price, when they sell on installments, so that they'll be sure to pick up their forecast on what they will otherwise lose by the inflation during the period of time payments. My impression is they also insure themselves against loss.

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Dr. Miranda explains that there are two kinds of inflation. He is accustomed to the first kind, as is everyone else. This is the constant depreciation of money. But the second kind is what he calls the "hot money". This takes the form of cash payments to farmers for their coffee. The minute they get this cash, they fear that the money is going to depreciate greatly in value - indeed they're afraid that it will vanish. So they rush out and buy anything into which they can convert it - and this of course greatly forces up prices. Dr. Miranda states that last year all the new printed money went to the coffee growers - and it was this "hot money" which forced up prices.

He thinks that Kubitschek made the wrong decision. The farmers should have been paid in Treasury notes or in some other manner over

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a period of time. But of course the political pressures were on the President to dish out the money.

Dr. Miranda says that the United States, in contrast to its gross national product, has 11 per cent in cash in circulation. France has 25 per cent. Italy as 20 per cent plus. But Brazil, he says, has only 17 per cent. From these figures he asks - does Brazil indeed have too much money in circulation? I told him that perhaps the French kept the money in socks under their mattresses, instead of spending it as do Brazil's coffee farmers!

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Governor Stevenson has several times mentioned his visit with the Governor of Sao Paulo, a call on which I did not accompany him. The Governor of Sao Paulo is Carvalho Pinto. Mr. Miranda explains that this name means "Oak Chicken". He says the Portuguese are very astute businessmen and the Brazilians are their natural inheritors. We talked about the dominance of the Portuguese in business in the Far East where before the war they acted as accountants for so many of the big European firms and where they have been accountants and money men for three and four hundred years. He says the Portuguese are so smart because they have such a big shot of Jewish blood. The Jews, when they were driven out of Spain, he says, settled in Portugal in large numbers. He attributes the Moorish blood in all Portuguese - plus the Jewish blood - to the explanation of their business acumen. He says that it is the Jewish background that accounts for names like Carvalho Pinto, which means "Oak Chicken", though I'm damned if I get the connection.

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Governor Pinto was sought as a presidential candidate by at least one of the big parties and we were told by both. But he was put into the Governorship of Sao Paulo by Jonio Quartos. Mr. Quartos is one of the two leading candidates for the presidency and Governor Pinto's loyalty is such that he's unwilling to challenge him.

Governor Pinto is an intellectual who told Governor Stevenson that the whole focus of the economic effort in Brazil is out of key because of the failure properly to emphasize agriculture. He says that the basis of the Brazilian economy is fundamentally agriculture - and the failure of the Brazilian government properly to develop agriculture is going to accelerate migration to the cities which will prove most unhappy for the country. He wants to develop government policies that will arrest the present over-expansion of industry and which will center on the diversification of agriculture, notably from coffee into other crops.

The Governor and I are naturally perplexed by the Brazilian coffee policy. The farmers seem to receive for themselves only about 40 per cent of the world price for coffee. The government is building up vast supplies in its warehouses - now totalling 40 million bags in contrast to a world annual consumption of 39 million bags - and Brazilian exports last year of 17-1/2 million bags. A small crop is anticipated this year but a boom crop next year.

The rationalization of the policy, if there is any, is that as coffee production steps up per acre in Brazil, as it is rapidly today with improved techniques and plants, this will make it easier to maintain Brazil's dominance in coffee while making it easier for Brazil at the same time to diversify into other crops.

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Hanging over Brazil is the threat that a substitute will be developed for coffee, chemically produced. Somebody at the Holland briefing told us that there is something like 35 different chemical ingredients in coffee and that 33 of these have now been isolated. Such a development would of course be catastrophic for the present Brazilian economy. Ever threatening is the growing competitive threat from Africa. Also, the quality of Brazilian coffee is below that of coffee raised in higher altitudes, such as Costa Rica, Colombia and other coffee.

(Rumor has reached me since dictating the above that a chemical substitute has been developed for coffee so perfect that "expert tasters" cannot tell the difference between it and high quality coffee, and that the price of such a synthetic substitute is only one-fifth of present world coffee prices.)

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I had a most interesting private visit with Mr. Byington of Byington and Company of Rio who has nine separate corporate operations and subsidiaries. He is theoretically the distributor of Britannica Films but can't sell many because of the import restrictions on foreign exchange. Mr. Byington reported that the communists were pushing hard on two key fronts - labor and education. He says that their objective in the field of education is to eliminate all private institutions and to center every kind of control in the hands of the government.

Mr. Byington emphasizes the communist threat in Brazil. He says that the government unions are being rapidly infiltrated by communists

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who are growing stronger and stronger. He has formed a group of businessmen whom he calls "Producers" who are studying communism and trying to develop real facts upon which to oppose it. He says that the Polish Embassy here is the center of the communist activity, a big embassy with important trade activity. Not long ago Poland was doing only a tiny business with Brazil, a few hundred thousand dollars a year. Last year the Polish business was 40 million dollars and within a year or two it will be 70 million dollars. The Polish Embassy works intimately with the Soviet Embassy in Montevideo, from which the agents infiltrate into Brazil.

Mr. Byington says there are 35,000 Brazilians now enrolled in a 48-lesson Communist course, attending it six nights a week, getting their "brains washed" with communist doctrine and propaganda. These men are labor leaders and others. He described specifically lesson 23 which is titled, "How to get the Americans out of Brazil". He says that phrases from this lesson run through the speeches of Sakarno and Nasser! He's highly alarmed by the communist threat in Brazil, to which he feels his countrymen have been all too oblivious.

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One of the most remarkable things about to happen is the visit of Jonio Quadros next week to Cuba. The Chairman of the Foreign Relations Committee of the Brazilian Senate, Senator Afonfo Arinos de Mello Franco, sat next to me at the lunch given by Ambassador Cabot. He's one of ten top political figures going along to Cuba with Quadros, who is the "opposition candidate" to Marshall Lott. Quadros is a paradoxical figure, a demagogue who is supported by the business community, in part because he balanced the budget of Sao Paulo when

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he was governor. Some think the odds now seem to favor his election. When I asked the Senator why Quadros was visiting Castro, I was told that in Quadros' speeches, whenever Castro's name is mentioned, the crowd applauds enthusiastically. Now the reasons for this are interesting, and I don't really understand them. Castro appeals to idealistic young people because they believe that he's honest. (And I do too.) He appeals to many because he's the David thumbing his nose at Uncle Sam, the big Goliath. And of course he symbolizes the guy who kicked out the kind of dictator which the United States is accused of supporting. He stands for land reform which is so desperately needed in many of these countries, and which provides him with a great fighting slogan. Although he's lost his standing with the literate and informed political leaders of Latin America, many of whom think that he's all washed up, the forthcoming visit of Quadros to Cuba, which will perhaps be a world news story, shows that one extremely astute Latin American politician thinks that friendship with Castro will pay off for him and in a big way. His opponent, Lott, has the official communist support in Brazil - but he, Quadros, seems to be seeking any unofficial remnants in Havana.

Here we have the picture of the great country of Brazil wanting help from the United States and seeking our loans and financial assistance. Yet one of its two leading candidates for president, with his top advisors, is going to Cuba to visit Castro. This is perhaps a sample of the tribulations and the inconsistencies in Latin American politics.

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BRAZIL

Cat. #1734
Memo #93

March 1960

BRIEF SUMMARY OF THE SAO PAULO LABOR SCENE

(Note by W.B.: This is a paper prepared at my request by the Labor Attache in the Consulate)

Sao Paulo has approximately 25% of the labor force of Brazil. The labor force of the state is estimated to be close to 4,000,000 with 2,500,000 in agriculture, some 1,000,000 in industry and approximately 500,000 in commerce, banking, communications and transportation.

American firms and invested American capital provide jobs for approximately 100,000 workers in the state of Sao Paulo. American firms have a good record in labor-management relations. Most American companies pay relatively high wages, and have good working conditions and abide by Brazilian law.

Only about 20% of industrial, transportation, commerce, communication and banking workers are members of 250 local unions in the state of Sao Paulo which are in turn affiliated to 17 state federations and four national confederations.

The labor movement here in Brazil is different from that of the United States and grew out of the paternalistic structure created by Gatulio Vargas during the period of his dictatorship 1937 - 1945. Under Vargas advanced legislation was enacted into law. However, the Vargas administration also enacted legislation giving the state broad power to intervene in trade union affairs which in effect made them entirely controlled by the Ministry of Labor.

The Vargas regime was overthrown by a military revolution in 1945, and for a brief period the Brazilian Trade Union Movement enjoyed some degree of freedom. However, within two years the Communists

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were in such a position of influence that the Government felt it had to impose strict controls once again. Since that time the Government through the Ministry of Labor has exercised a great deal of control over the labor movement.

In recent years, however, the labor movement has been more vocal in objecting to government controls, and in gaining economic benefits for its members. Trade union demands were responsible primarily for the issuance of regulations permitting free union elections, and allowing the national confederations to affiliate with the International Confederation of Free Trade Unions (I.C.F.T.U.). Strikes which in theory are strictly controlled by law occur and occur quite frequently. In the state of Sao Paulo alone during 1959 there were some 309 strikes, almost all because of worker discontent with the rapid increase in the cost of living which is estimated to have risen from 35% to 50% during 1959. These strikes are tolerated because all major political parties are well aware of the political importance of organized labor, and court the votes of the working class. Most of the strikes are of a short duration, and the workers have been gaining at least part of the increased wages they have been demanding.

Here in Brazil the rank and file generally tend to support their leaders during strikes over wages, hours, and working conditions. However, experience has shown that trade union leaders have had little influence in political elections. Many campaign or support candidates for all types of public office but their efforts for the most part have been unsuccessful.

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WAGES

A federal minimum law was enacted in 1937 and has been amended several times since. Present minimum wages for unskilled workers amount to Cr$ 5,900, approximately US$ 32.00 at the present free market rate of exchange, in the city of Sao Paulo and range down to as low as 5,200 cruzeiros or US$28.00 in the outlying areas of the State. There is however a shortage of skilled workers. Skilled workers earn from 10,000 cruzeiros to 25,000. The longshoremen in Santos enjoy relatively good wages with an average of Cr$ 25,000 per month, approximately US$ 150 per month. Sao Paulo's labor force could not on the whole be called highly skilled but it is rapidly becoming more so as enrollment in technical and vocational schools is increasing. Modernization of equipment in some industries particularly textiles has caused some unemployment but expansion of plants and improved production methods are providing more and more jobs. Purchasing power is low and many government employees and white collar workers have two jobs to make ends meet.

COLLECTIVE BARGAINING

Collective bargaining exists. However, the Ministry of Labor actively enters every phase of negotiating and approves each contract. Labor courts exist apart from the regular courts and consist of local boards of conciliation and judgement, regional labor courts, and a supreme labor tribunal. Almost every phase of normal every-day labor-management relations as we understand the term in the United States comes under the jurisdiction of the labor courts such as grievances, interpretation of contract, etc.

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COMMUNIST INFLUENCE

One cannot deny some Communist influence in the Sao Paulo labor movement but the Communists are by no means in a position to take over. On December 2, 1959 according to the local press an attempted general strike promoted by the Communists in protest over the high cost of living and food shortages turned out to be a dismal failure as the government and the Army moved in and completely dominated the situation. In addition the local press reported that the Communists were recently ousted in elections held in the Sao Paulo State Federation of Metal-workers, and suffered setbacks in the Santos City Central, and in three large local unions in Santos. However, the Communists are making some hay in trade union circles by adopting the ultra-nationalistic hate America line.

Although the three largest national confederations are affiliated with the I.C.F.T.U. delegations of Brazilian trade union leaders have attended the Communist dominated W.F.T.U. meetings in 1953 and 1957. Many Sao Paulo trade union leaders have visited Red China, the Soviet Union, and other Iron Curtain countries.

OUTLOOK

In recent years the Catholic Worker Circles, a worker group sponsored by the Catholic Church, has been actively combatting Communism in Rio de Janeiro and Sao Paulo. They have set up courses in worker's education, and have recently opened a full time six week trade union leadership training program at the Catholic University of Rio de Janeiro. In my opinion in the years to come their program will make a contribution to the lessening of Communist influence in the Brazilian labor movement.

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In addition, the U.S. USOM Point IV has an exchange program for government labor officials and trade union leaders. These people spend three months in our country at U.S. expense and study our labor-management relations, the structure and history of our trade union movement and American productivity and technology. Under this program approximately 70 Brazilian trade union leaders visit the U.S. each year, and almost all of them come back with good impressions of our free enterprise system and the progress workers can make through free trade unions.

Visits of U.S. trade unionists have been particularly helpful in our efforts to lessen Communist influence. In recent months we have had visits from Sarafino Romualdi, Inter-American Representative of the AFL-CIO and Andy McLellan, Latin American Representative of the International Union of Food and Drink Workers' Association.

Right now we have a team of U.S. trade unionists led by William C. Doherty, Jr., Inter-American Representative of the Postal Telegraph and Telephone International, visiting Sao Paulo and conducting a trade union seminar on collective bargaining.

We also expect to have a group of U.S. trade unionists attend the first statewide convention of Sao Paulo trade unions under the auspices of the Sao Paulo State Trade Union Council and scheduled for April 27-May 1.

Trade unionists such as these, speaking Spanish or Italian and some Portuguese generally impress Sao Paulo trade union leaders with the progress trade unions can make in a free society.

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U.S.I.S. is also making a contribution to the lessening of Communist influence by disseminating through radio, television, newspapers and other communications media literature, films, and other information in Portuguese on labor-management relations in the U.S., the history of the U.S. trade union movement and our labor legislation.

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BRAZIL

Cat. #1714
Memo #95

April 1, 1960

MEMORANDUM ON TRIP TO BRASILIA

President Kubitschek and the Foreign Office in Rio insisted that we visit Brasilia. They provided the airplane, lunch and guides. I, myself, wanted to take our one trip from Rio to Bahia, the old colonial capital further north. I resisted Brasilia and protested - but I'm glad I went. The experience was remarkable and rewarding. This newly created capital will open officially on April 21st when the government moves from Rio de Janeiro. Brasilia is roughly located in the very center of Brazil. The Constitution of 1860 or thereabouts calls for such a capital, in Brazil's center, but it has taken President Kubitschek to put it over for 1960. He and his associates have been bitterly criticized for the expense - and for their impetuous haste - but I am assured that the whole country now accepts the idea and is proud of its new capital. Today's criticism centers around carping comments about the architecture, the layout, the location, et cetera.

Five or six different sites were considered. One reason for the choice of the present site is that it was a wilderness.- a mass of scrub trees on a plateau about 3,000 feet above sea level where the land was worthless and could be condemned at virtually no takeover cost. Indeed we were told that the land was purchased at $4 for 12 acres. Such a 12-acre plot is now selling, we were told, at $15 per square meter. In the shopping center, the shops built by the government and offered for private sale are now selling at two and a half times their construction costs. The heavy costs of the development of Brasilia, during the current year, will be met by the profits on such

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sales. Brasilia thus seems to be one of the greatest real estate promotion schemes of all history. A great dam was thrown up to form an artificial lake. Eighteen months or so back the American firm which had this lake under contract threw up the job saying it could not be done in time. But it has been done. The land around the lake is being bought by speculators, embassies, those who want it for private homes, etc.

Brasilia as a planned city is illustrated in the attached little map. In the semi-circle are nothing but apartments and shops, with a shopping center for every group of six blocks. In the diagonal running up and down are the great Government buildings, and also the main shopping and entertainment centers. In the areas off to the left and right are sections where private land can be bought for the building of private homes. The apartments in the six-story buildings, and there are no buildings over six stories except the banks and government buildings, run from 1 bedroom apartments to 4 bedrooms (plus other rooms such as living room, dining room and kitchen). Later bigger apartments will be built, cooperatives for those who want to buy them. But most of those who want more rooms are expected to go to the outskirts to build private houses.

The most interesting aspect of the apartment houses is that they are owned by the various Ministries. Thus all the people who work for the Finance Ministry, for example, will be housed in apartment houses owned by the Finance Ministry. (When I laughed about this, and asked how a man was to work out a project under which his daughter would live next door to him without making his son-in-law work for the Finance Ministry - I was told that with more maturity would come other arrangements!)

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On the opening on April 21st, 5,000 apartments will be ready which are expected to house 20,000 people. These will be added to the 80,000 already in Brasilia, scattered around in makeshift wooden shakes and otherwise - for a total of 100,000 population. Our guide prophesied that there would be a population of 300,000 within three years.

We were met at the airport by the president of a company called NOVACAP, which means "the new capital." (Rio is already jestingly being called "the old capital.") His name was Mr. Pinierho. He was a deputy in Parliament who favored the building of Brasilia Because of his advocacy, he was set up as president of the key company which controls all other companies. He is an engineer. He has resigned as a deputy.

The architect is Oscar Niemeyer, the man who won the contest for the building of the United Nations and who is famous for his great designs in Caracas and elsewhere throughout the world. He is accepting no profit from this venture. He is now living in Brasilia and working at a salary of $300 a month.

The first building was begun only in March of '57. It was completed in April of '58. Today there are great roadways completed. We saw 11 tall buildings to house the various Ministries - plus the buildings to house the Congress, and the capital building largely underground with a projecting dome and a saucer shaped companion piece - for the Senate and the House. We saw the Supreme Court building which reminded Governor Stevenson of a drydock! We visited the President offices, magnificent and expensive, and the beautiful and breathtaking new residence palace for the President. The pictures of these buildings will speak louder than my words. As a group, we were greatly taken by

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Niemeyer's remarkable designs which made the President's residence seem to float out of the ground. We liked the extraordinary use of marble, the balconies, et cetera. By April 21st, we were told that schools and gymnasiums will be operating, warehouses and shops and one church.

Everything in Brasilia is planned and ordered. Thus all the banks will be together in one section, and they are all tall sky-scrapers! They own their own land and are building their own buildings. All the embassies will be together. All the theatres.

The night before, at the cocktail party announcing Britannica's new Brazilian encyclopaedia, Governor Stevenson had said that Brasilia was now "the world's most famous city." I told him that I thought it was destined, in the next few months, to be "the world's most discussed city."

Satellite cities are planned for workers. These will hold small houses and apartments.

For the opening on April 21st, people will come from all over Brazil - bringing their sleeping bags!

Of course President Kubitschek is driving for this early opening because he wants the city dedicated before he leaves office ten months hence. I can't blame him for wanting to be the first president in the presidential palace. A lot of the furniture is already in place, including a set of the Encyclopaedia Britannica in the library.

Brasilia is a sample of Kubitschek's driving energy and his determination to build the symbols of this country's proud destiny at all costs. The city is built in the middle of a vast wilderness.

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Of course it should build up rapidly, even though the land is poor and will require plenty of fertilizer and special care. It's the new spirit of Brazil.

(At the luncheon given by the President I asked him whether Brasilia would contain a giant statue of him, comparable to Christ which towers over the harbor at Rio, or to the President Aleman statue which dominates the campus of the University of Mexico; and the President seemed to regard this as a tremendous joke and leaned across to tell it to the Ambassador who was his Secretary General and who sat at my left and who must have been his intimate associate for decades - he was his secretary when the President was a Mayor.)

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CHILE

Cat. #1678
Memo #44

March 5, 1960

CALL UPON PRESIDENT JORGE ALESSANDRI AT HIS OFFICE IN SANTIAGO, CHILE BY GOVERNOR STEVENSON ACCOMPANIED BY SENATOR BENTON

President Alessandri is a bachelor in his fifties who, we were told, does not drink or smoke. He lives in a small apartment a few blocks from the presidential office and frequently walks to and from his office. He is a former businessman and the son of a former President. He speaks quickly and with authority. In his appearance and his manner, he reminded the Governor and me of Mussolini. He talked at a very rapid clip for more than an hour and warned us as we left that he had spoken in confidence. Governor Stevenson replied, "I don't quote Presidents." Later when I complained about the general absence of candor in most of these interviews, Governor Stevenson said he felt that President Alessandri had perhaps been among the most candid. I had the feeling of far greater candor in many of my interviews in the Soviet Union.

The President explained that Chile is sponsoring a conference for all Latin American countries on disarmament. He wants preliminary conferences between the United States, Mexico and Chile - on the preparation of an agenda. He said that Chile wanted to present some very simple proposals:

1. A common and agreed upon type of accounting on defense expenditures. (He says many of the countries have secret budgets.) He says that Chile is one of the few Latin American countries where the armed services exercise no political control. He commented that this was "an

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unfavorable position for Chile in such negotiations". (The Governor said that on the contrary it seemed to him this put Chile in a most favorable position to take the initiative.)

2. He wants all purchases for armaments made known quickly and fully. He doesn't like to read about them unexpectedly in the papers.

3. He feels that the Rio Treaty makes it possible, under Article 9, for countries "to act at once"in the case of military aggression - "without waiting for the appointment of a committee or the findings of a commission." He wants this more clearly understood and agreed upon.
He said that he presented this viewpoint to the President of the United States - "and he agreed in a message to Congress."
President Alessandri says that if all countries knew that in case of attack they would have immediate assistance - then they wouldn't have to purchase "old fashioned equipment in Europe".

4. The President wants the United States, in its distribution of aid, to give preference to those countries which do not purchase armaments. He says such a U.S. policy would act as "an automatic regulator". He points out that this could be a point of enormous potential in the economic development of these countries. He feels such an incentive will make all countries want to allocate more of their own budgets to economic development - and

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much less to armament. (He points out the inconsistency of Brazil purchasing armaments in Europe while at the same time seeking aid and loans from the United States.) The Governor said he thought that Premier Beltran of Peru approved President Alessandri's view. Alessandri snapped back that Beltran didn't control Peru and that the next President will probably be a man from the armed forces. (Odria?)

If there are more specific proposals which the President has in mind for his proposed conference, he didn't enumerate them. In response to a question from the Governor he said he could not reduce Chile's arms budget. (The same answer we received from the Finance Minister.) But he wants the budget stabilized. He doesn't want to increase it.

The Governor pointed up the importance of the leadership of South America on disarmaments to the rest of the world. He said he had hoped the Geneva nuclear negotiations "would break the deadlock". He added, "If they don't, the world needs another means". He asked, "Can't South America lead the world by its example?"

President Alessandri replied sharply that the answer depended on the cooperation of the United States. He said he was pleased by President Eisenhower's reaction. The Governor asked him to be more specific. President Alessandri said the U.S. should join in a statement, and ~~said~~, that "it will help at once in case of aggression". At the same time, he suggested the appointment of a committee - but he doesn't want leadership by the United States to await the findings of

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the committee! He said that too many countries are too much afraid to wait.

I asked about the problem posed by a Castro in Cuba. He replied that this problem is very well defined in Article 9 of the Rio Treaty. The aggressor must be a foreign country - and must be an American country. I asked whether this would mean the United States would have to intervene in Santo Domingo in support of Trujillo if Castro attacked Santo Domingo. The President said flatly that this was just what the treaty meant. I mumbled something about the dilemma for U.S. policy.

The Governor asked further about Castro. The President replied that he opposed intervention in Cuba just as does the United States.

The Governor then asked about inflation, the issue with which the President identified himself in his victorious campaign. The President replied, "We are now at the most difficult point. We've had 20 years of demagogic government. The salaried classes expect automatic increases and this gives away the productive capacity of the country faster than we can increase it." The President explained he is now trying "to correct the imbalance between local and world prices." He said the cost of living in Chile went up 35% last year. His government, which took office in November of '58, was confronted with this big increase in the early months of '59. But his measures were so efficacious that he claims in the last six months of the year, prices only went up 2% in total.

He is now faced with "a big opposition campaign". Last year such a campaign forced him "to raise salaries and wages 30%". Now

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this kind of increase is demanded once more. He is against it. He told us the story of the Schweiger Coal Company. This has an annual profit of $160,000. A raise in wages of ten per cent creates an extra expense of $480,000. The opposition wants a 35% increase. This would cost the Schweiger Coal Company more than $2,000,000 in extra costs. Thus of course the price of coal must go up. The President added, "I have ordered that there shall be no raise in coal prices. Of course, the Schweiger Coal Company can raise wages if it wishes." In condemning demagogic appeals, and in his use of figures, the President talked like an accomplished Chamber of Commerce orator, and in the best sense.

Explaining the difference between the current year and the problem last year, he said he felt he had no choice but to raise wages last year because prices had gone up so sharply. However, he said the Congress had doubled his own proposal of a 15% increase and he had no veto over the congressional action. He explained that he lacked a majority in Congress.

We asked about land reform. His interpretation of the new land bill is different from that of the agricultural expert in the Embassy. The President says the new land bill proposes to distribute only land which is already in the hands of the government. He explained that much government land had been "very badly exploited" - land which has been held by government employees, - by government managers who have controlled the votes of the peasants living on the lands. The President said that there have been previous laws demanding changes but these laws have not been complied with. He feels this land should be

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taken from the people who are not developing it and given to those who will. He wants to give the new owners the credit to buy and develop the land. He estimates that he's talking about 30% of all the land. He clearly states that he doesn't contemplate breaking up any of the big estates.

He explained a good bit about the ownership of lands through the operation of"social security". I suppose this means funds invested by social security officers. He says "social security" owns land and big buildings in Lima which operate at a loss. He says he's selling the buildings. He told us Chile was one of the first countries in the world, in 1924, during his father's regime, to establish social security. He said Chile "copied the German system but instead of a private system, the operation has been under the government and the results have been disastrous". He says it's extremely difficult to reform the social security administration because of "interests". In his campaign he said these past unhappy mistakes had brought Chile to its present predicament. He feels the country approves his efforts to remedy them.

The Governor asked about the stagnation of the economy. (This expression has been used several times here.) President Alessandri replied, "It's a political campaign against me; there isn't any." He cited as an example the increase in metallurgical production.

He told the Governor he had read with interest of our meeting with the students. He said his administration is opposed by the Marxists and by the Christian Democrats led by Senator Frei, - and another man whose name I missed. He said he was pleased the Governor's

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position "coincided exactly with my own". He said the word "capitalism" has been turned into a nasty word. He regretted the fact that Senator Frei was not an economist, though he called him a scholar. He shrugged and said, "God made men with defects". And he added, "We won't ever be able to construct a political system with the virtues both of democracy and communism". (The Governor interjected, "Unfortunately men will continue to look for it!")

The President agreed that economic progress in recent years in Chile had been less than formerly. He thinks this is due to the '29 crisis. Prior to '29 he said, South American countries and companies contracted loans through private banks. With such loans, they financed public works and other enterprises. Such loans increased trade. Unfortunately, he added, "this system was abused from '25 to '28 - it got out of control - and the world crisis put all these loans in default". Now he comments sadly that there are no more loans available and money must be raised from taxes.

He feels that foreign investment is impossible for utilities because "the rates are held down". Thus the government must finance the utilities. They've got to be financed out of the annual national budget and this means "a great diminution of projects - and of course of our ability to import". Here again, he referred to a private conversation he'd had with President Eisenhower. He said he had told President Eisenhower of the need to re-establish loans, but under better controls. President Alessandri added "My views here would be heresy to the International Bank". He wants the loans to cover the financing of local costs as well as purchases from abroad. He repeats

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sadly, "Unfortunately, the funds from many loans in the twenties were used unwisely".

The Governor asked whether the peso is over valued and the President did not give a clearcut answer.

The President told us that unfortunately, "Many people who are really Democrats don't understand the reality of the communist propaganda and form of government".

The Governor asked him for his comments on U.S. policy.

The President replied that he feels the suggestions he had already made were very important.

The President warned us that the communist influence in the international agencies, - in all UN agencies - is much greater than we may realize. He said, "Many of these agencies arrive at conclusions which are not warranted by the statistics". He claimed these international agencies "have preconceived ideas which they bolster with statistics that are used as an excuse to attack the imperialist U.S.A." He attributes this to communist infiltration.

President Alessandri has made studies of these reports and he says he understands statistics. These studies purport to show a state of poverty in South America which is not always real. Such propaganda should be combatted. Here in Chile, the Communists spend a lot on propaganda through their Marxist parties.

Governor Stevenson asked, "Where do they get all this money?"

President Alessandri said they get it from behind the curtain - and they also take part of the salaries of all communists. (This point was not made clear but I suspect he meant that the Chilean

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communists must contribute part of their salaries to the party, such as Union Members must pay dues to their local Unions.)

Governor Stevenson asked, "How can we combat this?"

The President replied that we must "introduce fundamental reforms if we are to preserve liberty". He said that the United States embassies should have propaganda agencies to combat the campaign that the United States "siphons off" wealth from these Latin American countries. The statistics on this subject are phony. They don't show the monies left in the various countries, over the years. Take the case of the big mining companies, said President Alessandri. They contribute $100 millions yearly to the Chilean economy which Chile spends for equipment to give work to other Chileans. Sound studies should show the investment of profits which are not withdrawn, but which are ploughed back into the companies. Many politicians don't want to understand this.

The President thinks much of the problem is a simple matter of propaganda. As President of the Chamber of Commerce, he said he could explain the facts! One must understand, he said, "that 60% of the profits of the mining companies goes to the Chilean government". The students with whom we met had said these companies receive more favorable treatment than Chilean companies. Alessandri said flatly this is absolutely false".

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Cat. #1684
Memo #49

3/16/60

"BRIEFING SESSION" AT THE U. S. EMBASSY IN SANTIAGO
WITH AMBASSADOR HOWE AND HIS ASSOCIATES

The Ambassador said that "the student letter" which is receiving such publicity here, addressed by the students to President Eisenhower on his recent visit - (the letter and his reply will be found in the briefing folder) - is believed to have been written by Mr. Tomie, "a left wing Christian Democrat". The Ambassador said that the papers had commented favorably on the letter. And he added, "This cannot be merely a statement of students".

* * * * * *

The Ambassador called on Don Zook, his political officer, who told us that the present government had been freely elected; that Chile is "one of the few free democracies of Latin America"; that President Alessandri is "able and honest and seeking a sound government basically of the right wing". Alessandri, whose father was president before him, was elected in September of '58 and took office in November of '58.

Today there are 17 recognized parties in Chile in contrast to 29 some years back. In the '58 election, these 17 parties combined around five presidential candidates, four of whom Mr. Zook called "major league". Senator Allende, who came in second, had the support of the leftist groups. Alessandri received 31 percent of the popular vote and Allende 29 percent - roughly the vote of the right versus the left. The vote "polarized around these two", with the other three candidates receiving the other 40 percent.

Alessandri is the first "frankly conservative president" which Chile has had in a long time. He's been plagued by his lack

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of control of the legislature. He has to rely on his former opponents, who control the legislature, in order to legislate. He has the natural support of the Conservative and Liberal Parties, both right wing, and he has won the support in addition of the biggest single party, the Radical Party. He must often compromise his program, in order to tailor it to the Radical Party whose support is essential to legislative action.

The opposition to his policies comes from the extreme left and from left of center such as the Christian Democrats. The Communist Party is small. It has been illegal for ten years. Now that it is again legal, it helps provide "strong articulate opposition, but often irresponsible opposition". Senator Frei, who leads the Christian Democrats, (on a previous disc I said I thought that Senator Frei was head of the Christian Democrats, will you please correct that and make him flatly head of the Christian Democrats. Correct that earlier memo.) inspires a great deal of devotion in his followers.

Looking ahead, Mr. Zook says that the "time factor is very important". President Alessandri would like to win legislative control in the congressional elections in April of '61. If he hasn't made a constructive effort to put through a good program, the parties that support him will lose seats in the legislature. Mr. Zook feels that this election may be "Alessandri's last chance". If Alessandri fails in '61 - in '64 Chile may elect a president who is "heavily indebted to communism".

President Alessandri is putting major emphasis on the need for arms control. Mr. Zook said that the President wants "to get

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the money for other purposes". (Later we were told both by the Finance Minister and by the President himself that there was no real chance to cut down on Chile's expenditures for armaments, now running at only 14 percent of the budget, but that the great objective is to avoid increasing these expenditures.) Mr. Zook says that 25 percent of the budget - not 14% - is for armaments.

Mr. Zook told us that he thought that many political leaders here might talk to us about the need for widespread limitation of armaments. He said there was a desire for OAS to be the sponsor of such a move, on a motion of Chile, with the aim a formula for arms control. A committee would be set up with representatives from all South American countries except Bolivia and Paraguay - with Mexico and the United States added. The discussions by this committee should be followed by a conference, "to explore the field and to determine the points on which agreement can be reached". For example, can agreement be reached on the percentage of the budget of South American countries which can rightly be devoted to arms?

President Alessandri first publicly announced his disarmament program in an interview with the New York Times last November. The purchase of a cruiser by Peru brought the matter into the open. (He had privately expressed himself along similar lines earlier.) Mr. Zook says that Chile wants our support for President Alessandri's plan; it wants the U. S. to participate, wants our advice. Will the U. S., for example, use its influence with Peru? All South American countries have agreed to Alessandri's proposed approach except Colombia, Peru and Venezuela - who haven't replied.

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The Foreign Minister recently commented, "We've taken off on a good flight, but we don't know how to land!".

The Chileans would like to see the Peruvian-Ecuadorian dispute settled by juridical means. They'd also like to settle their dispute with the Argentines in a similar way. This latter dispute is over land in an uninviting region and also involves the dividing line of the Beagle Channel. Chile and Argentina, on previous occasions, have agreed to settle by arbitration, but they've never been able to agree on how to arbitrate. (Maybe it's oil!) In part the problem is one involving prestige, but in part it might be economic. (Oil?)

Chile states that the Argentines keep changing the terms of reference. Chile thinks that pressure groups such as the Argentine navy keep pushing against the civilian administration - and President Frondizi of the Argentine is unable to stand up against such pressures.

* * * * * *

The labor attache took over, but I do not have a record of his name. He told us that the labor groups in Chile were "politically oriented". He said that as yet there was no strong support for Raul Castro's idea, but that there is "lots of support in Chilean labor for all regional and all world groups". The communists in labor groups here don't want to desert the CTAL. However, the communists control only about 50,000 workers out of the 500,000 who are organized. These are mostly in mining, nitrates and coal. (My notes indicate that "American copper companies are excluded", but I don't remember the meaning of this phrase unless it means that their unions are not dominated by the communists.)

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The speaker said that labor was fragmented in Chile. The central organization is known as Couch. It tries to lead, but it can't. The communists, once the dominant force in it, are now getting weaker. Perhaps a total of 300,000 - in theory - belong to Couch - but very few pay their dues and many won't participate actively. The political parties move in and out of Couch on political grounds. The Christian Democrats and the Radicals have pulled out. The major political parties all have "labor departments". Couch's Council, when President Eisenhower was here, let down a big banner featuring a picture of Castro.

In response to our questions, we were told that the communists have a following among the intellectuals of Chile; also in education including their "very effective influence among the universities".

* * * * * *

The third officer took over - Mr. Thomas R. Favell, the Economic Counselor. He said that the most urgent problem is inflation, with a long history back to the thirties. In recent years the average upward movement of prices is about 33 percent per year; formerly it was 80 to 85 percent. President Frondizi's administration is fighting inflation and regards this year "as the year of decision".

Because of inflation, the rate of savings and investment has been "abnormally low", - somewhere about ten percent - with half going into replacement rather than into new equipment.

The per capita income is $350, double that of Peru, but behind that of the Argentine and Uraguay. The total productivity

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has been going up only about one percent per capita and in the past six years has actually declined. (I do not know the period covered by the one percent per capita, perhaps since the war.) The fluctuating price of copper has been a handicap.

Mr. Favell says that the stagnation has to be licked and he thinks that the administration must stop the inflationary spiral before real economic development is possible.

The problem of land and of agricultural production are in part dramatized by the fact that Chile has shifted from a net exporter of food stuffs to a net importer.

The development of public services has been retarded by the frozen rate structures. (Some improvement lately.)

The importance of copper in the economy is shown by the fact that a one cent change in the price of copper means $7,000,000 to the Chilean Treasury Department - and actually $10,000,000 with the indirect effects thrown in. Copper is by far the biggest export product (60 percent of the total) and is now expanding. Fifty thousand tons were shipped last year, the biggest production in history.

Seventy to 80 percent of the copper is sold in Europe. In 1958, the United States Senate failed to extend the suspension of our import tax on Chilean copper. This tax is now 1.7 cents a pound, in contrast to four cents or thereabouts - as I remember when I was in the Senate, and when Senator McMahon and I successfully worked together for an extension of the suspension of the tax. The 1.7 cents, under the '58 Act, goes up when the price of copper is under 24 cents a pound.

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There was little to attract more U. S. investment to Chile until three or four years ago but things are picking up. Now there is perhaps in sight another $300 million or $400,000,000 in new investment in copper. (Chilean copper is now 20 percent of total world production.)

* * * * *

Another officer took over, whose name I did not catch. *He was the Agricultural Attache, - or expert. He said that Chile is now normally 80 to 90 percent self-sufficient in the production of food. In the year just ended, Chile will import coffee, tobacco, tropical fruits and sugar.

A great deal of Chilean land is "under-used". Last week a law was passed giving the President power to reorganize the Ministry of Colonization. The President can distribute public lands which are not being properly used. Further, he can "break up and colonize the big estates". (We had contradictory reports on this later.) The idea of such a law is several years old, but the continuing inflation has killed it. (It has been profitable to hang onto land during the great inflation; Ambassador Muller later told us that his $20,000 investment in his "farm" is worth something like $200,000, and this in real dollars - wholly apart from the inflation.) Under the new law, the President also has the power to take a lot of small plots and pull them together into a large and efficient operation.

The land is not as concentrated into large holdings and a few hands - as many people have said. Time once reported that 55

*Probably John S. Burgess, Jr.

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percent of the land was owned by 2.5 percent of the people. The speaker says that he estimates that 40 percent is owned by three percent.

The Minister of Agriculture once described the Chilean land cycle. When the farms are small, the unprofitable ones are sold and the good ones take over - building up bigger and bigger holdings. These large holdings are then sub-divided by inheritance into small ones, and the process begins again.

The political group known as FRAP in the last campaign capitalized on land reform with maps. These maps dramatized how the public land would be distributed through "colonists". FRAP proposed to take over unworked private land by taxes and by purchase - and further proposed a system of incentives to stimulate production.

Ambassador Howe, before his appointment, was in charge of our Technical Assistance Program in Colombia. He says that the Technical Assistance programs often "slips back", but the objective of them is to get important projects started which will later be turned over to the local countries and administrations. The present Technical Assistance Program in Chile totals $2,984,000. We were shown a big pie chart, a circle broken up into 14 or 15 colors representing the different segments of the program. About a third, somewhat more, goes into agriculture. Roads get $228,000; labor gets $309,000; there are substantial segments for health and for "exchanges". One hundred and fifty thousand dollars is an under-writing to the University of Chicago which is setting up a School of Economies at the Catholic University of Santiago. This is the

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city's second largest university, equal in prestige to the University of Chile and in some departments better. (Mr. McCausland of the Embassy told me he thought the wealthier boys from the higher grade families went to the Catholic University, in contrast to the University of Chile, but this was later denied.)

We have not had a program of economic aid for Chile, only Technical Assistance, and this since 1943 has added up to around $20 or $25,000,000. The loans from the Export-Import Bank etc. have totaled another $40,000,000.

In 1959, a total package was worked out with the United States which added up to $123,000,000 for the year. This package involved money from the International Monetary Fund, $50,000,000 from the Export-Import Bank; stand-by fund from the U. S. Treasury to bolster Chilean currency; $25,000,000 from private banks; and I suppose the World Bank must have figured in this also. (I did not have time to get these figures and this breakdown exactly.) President Alessandri later told us that "right now is the critical time" - but all agree that progress has been made in stabilizing the currency. When Alessandri's administration took over, the foreign exchange reserves were a tiny $500,000; now they are $80,000,000. Further, there is an important psychological change. There is now a modest flow of capital back into Chile. Confidence is resuming.

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CHILE

Cat. #1683
Memo #48

March 17, 1960

Visit with Foreign Minister German Vergara and Finance Minister Roberto Vergara, in Santiago, Chile. The Foreign Minister served once before as Foreign Minister, and was with Governor Stevenson for several months in London, in 1945, during a United States Conference. These two men are not related, although their names are the same.

Present at this meeting were Governor Stevenson, Ambassador Muller (Chilean Ambassador to the United States), and Dr. Carleton Sprague Smith.

The Foreign Minister apparently understands English well but because he speaks it haltingly, preferred to converse in Spanish. I understand he is about to leave for Europe for an operation on his eyes, and there is some uncertainty about his return. The Finance Minister is fluent in English; he lived for a dozen years or more in the United States as head of the Chilean Development Corporation and credit is given to him for arranging the first loan of the Export-Import Bank to finance the Chilean steel mills. Many consider him to be the strong man of the Cabinet. He seems to have sponsored many Cabinet Ministers, whom he regards as proteges - such as the Minister of Labor, and Health, Mr. Pablo Perez; and Mr. Eduardo Figueroa, formerly head of the steel industry, and who is now President of the Central Bank.

Governor Stevenson pitched into the subject of disarmament. We were told that in 1915 and in 1938 arbitration agreements had been signed with Argentina, but no settlement had ever been reached on the border problem. Now, we are told, the Argentine government has asked for more land than ever before. We inspected maps in order to achieve a better understanding of the argument over the islands near the Straits of Magellen. There are three small islands, Lennox,

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Nueva and Punta, which if fortified, would control the Strait of Magellen. The Finance Minister says that only 22 people live on them - and about 1500 sheep! The Finance Minister is of the opinion that the Argentine Navy thinks these islands may be good bases some day - but he regards this idea as wholly obsolete.

He suggests that the Argentine Navy tries to keep things stirred up. He stated that "the armed forces are political parties in the Argentine - the Navy is one party, the Army another." He has heard that right now there is a split between the groups in the Argentine armed forces - some wanting to maintain a legal government and those wanting to call off the elections. He says that these groups are not sympathetic to Chile's desire for disarmament.

Ambassador Muller said he thought that President Frondizi was honestly willing to arbitrate, but the armed forces seek to hold things in abeyance by "asking for more." Ambassador Muller feels that President Frondizi would favor disarmament. He spoke of the Minister in the Argentine Cabinet, Mr. Alsogaray who is referred to as the Prime Minister "who runs the economy and who plans to reduce military expenditures." The Ambassador told of a visit by Minister Alsogaray to Corboda where he explained to the chiefs of the garrison that he intended to reduce military expenditures. He has laid down this dictum to the three Secretaries of the armed forces and is said to have the agreement of two of them.

The two Ministers Vergara reported that never before have Chilean-Argentinean relations been in such good shape. They agree on transportation, tourists - everything except the border problem! (I am not clear as to the nature of the border dispute apart from the

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islands, but the land under dispute seems to be thinly populated and relatively unimportant.)

The Foreign Minister asked Governor Stevenson to speak to the Argentine government about arbitration. The Governor said he thought it was important to settle the Argentinean-Chilean argument in order "to isolate the border dispute between Peru and Ecuador as the only problem standing in the way of South American disarmament." Ambassador Muller suggested mutual guarantees to all countries against aggression. He asked why the Rio Pact couldn't be made stronger - why immediate intervention couldn't be agreed upon in case of any aggression, without waiting for the meeting of the Foreign Ministers and for subsequent agreement to intervene. He said that this idea would "permit a single country to disarm without waiting for general agreement."

The Foreign Minister said that the burden of disarmament is beyond the capacity of Chile. He further said, "We can't have the surest ones looking at the shining military boots."

It was agreed that the Ecuador-Peru dispute can't be talked about until after the Ecuadoran election. The Foreign Minister feels that Chile is not in a good position to take the lead "because of the past wounds with Peru." (The war of the Pacific.) The Governor said that he felt that Minister Beltran of Peru would welcome the leadership of Colombia and Chile. The Foreign Minister suggested Brazil as the best intermediary, but the Governor seemed skeptical. The Foreign Minister felt that Brazil could mediate, though perhaps she couldn't arbitrate. Brazil would act with the backing of the United States, Argentina and Chile - the three guarantors of the

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agreement in 1942 to settle the border dispute by arbitration. Ambassador Muller felt that the OAF committee of ten might take the lead, but the Foreign Minister felt that the committee had "too much to do."

The Foreign Minister thinks the problem is very difficult and is not prepared to pass judgment between Ecuador and Peru. He says "we need judicial determination." The Governor said he had hoped that public opinion would force Ecuador and Peru to settle their differences and he asked the Foreign Minister how pressure could be brought upon them. The Finance Minister commented that Peru could "walk over" at any time she wanted to and the Foreign Minister added, "Ecuador has only one frigate." Although there was no consensus on which country was right, or on how to resolve the problem, there seemed to be general agreement that the council of ten, which immediately runs into the Peru-Ecuador problem when it tries to move ahead - is not qualified to handle the problem.

The Ministers expressed regret about the two cruisers purchased by Peru -- "crazy," said the Foreign Minister. We were told that the Peruvians are angry because President Eisenhower didn't go to Peru, and the Foreign Minister added that the "fellows who sell armaments have good propaganda" - because now the Peruvian Navy wants more ships.

The Governor suggested that there was no real trouble in Colombia or Mexico - on the subject of disarmament - and there shouldn't be any trouble in Chile - that the real trouble stems from Peru, the Argentine and "those countries which have shadow military governments."

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There was some talk about putting the subject of disarmament, and the Peruvian-Ecuadoran border dispute on an agenda of the regular OAS meeting. Ambassador Muller prefers a special conference on disarmament to consider the recommendations of the committee of ten. He wants to avoid too long an agenda, at a regular meeting. The Finance Minister added, "Why not put the Peruvian Navy to useful work?" He said the American government did everything in its power to prevent the sale of the cruisers to Peru. Ambassador Muller quoted British Ambassador Caccia in Washington as saying,"If you South American countries can't agree among yourselves to disarm - we're going to sell you the cruisers - but if you can agree among yourselves, then we'll send the cruisers to the scrap heap."

The Foreign Minister said that if Chile couldn't "force arbitration with Argentina through unilateral action, we shall ask another country if it can't help us get Argentinan agreement."

The Governor asked how much, under a disarmament program, Chile could save on its budget for arms. The reply was, "The 14 to 17% of our budget which we now spend on armament is small. The problem is not to increase it. Yes, we can save money on the Navy and the Air Force, which are the most expensive, but we don't think the 14% can be reduced very much. We'll be happy if it doesn't go up."

When reference was made to Mexico's 6%, the Finance Minister said, "Mexico is a country with a neighbor on her north too big to attack her and a neighbor on the south too small to fear!"

Ambassador Muller asked about the recent "Buy American" policy emanating from Secretary Anderson - created by the so-called "gap." He asked if this couldn't be changed. The Governor said he thought

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it could. The Governor said he had spoken against it, had written in "Foreign Affairs" against it, felt it was a contradiction of all that the United States should stand for - and that it would fail.

The Ambassador said much more cooperation was needed "between Point Four and the lending agencies." He said the latter "wait until someone comes in to see them and asks for money." The Ambassador feels that the lending agencies should initiate surveys of raw material and manpower problems. The Governor agreed. He said he had hoped the ECLA would come up with regional proposals. The Finance Minister spoke of Paul Hoffman's recent visit. The Minister wants a loan to finance a study made of Chilean water resources. Such a study would be very expensive, requiring drilling equipment, trucks, etc. He stated that Chile is 20 years behind in its efforts to study its underground water resources - that water geology is almost as important as oil geology. He complained that no agency is prepared for such a loan. He said that the Export-Import Bank could make the loan legally, but would have to change its policy in order to do it. He complained about Paul Hoffman's Fund, because in order to get help on such a project, Chile would have to make a major contribution to the Fund itself. Chile would also have to put up the local funds. Both these requirements cost so much that the Finance Minister doesn't feel that he would net enough in aid from the Fund - for him to proceed with it. (I later heard that an important project of the Fund had been laid down and agreed to in northern Chile. I asked Mr. Santa Cruz, U. N. representative in Santiago, about these charges of the Finance Minister. He says they are not correct. He says that Chile would only have to put up about one-third of the total funds,

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and he thinks it's a good thing for each country to contribute one-third of the total. Of course, he takes the view that Chile should make its contribution to the Fund in any event.)

Ambassador Muller suggested a pool from all the lending agencies - to study the natural resources of the various countries. He said that the bad feeling which exist among the lending agencies keeps them from cooperating as they should. He fears that the New Development Bank, just being organized, won't do the real job for which it was designed. He says this new bank should pitch in to "wholly new type projects." (I suspect that many more of these surveys have been made than we know about; I've heard some of them have been kicking around without indicated action for many years.)

The Foreign Minister commented that Latin America "doesn't need a Marshall Plan, which was devoted to rebuilding destroyed factories. Europe had the trained men and the know-how. It had its goals. Latin America, on the other hand isn't in a position to spend as much as a billion dollars a year. It needs first to determine and evaluate its natural resources, to train its people, to set up it goals." The Finance Minister told us how welders had to be trained for a special job recently. He said that universities had to be built. He compared the problem of Chile today to that of California fifty to eighty years ago. He ended up by referring to Paul Hoffman once more. He said, "Mr. Hoffman had the right approach but he is too expensive." The Ambassador insisted that his suggestion of coordinating all projects, instead of the piecemeal approach, "will give the United States far more credit - even if no more money is spent."

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This caused the Finance Minister to state that during the last 20 years the only financing "has been for specific projects" and he commented "sometimes going through Washington in an effort to get these projects financed leaves a man so exhausted that he hasn't enough strength left to say thanks!"

He feels that Chile can build electric power plants after the right study of water resources has been completed.

The Governor again asked about the leadership of ECLA - where was it? - where is the leadership of the Operation Panamerican?

* * *

The meeting broke up very hastily as we adjourned for a formal luncheon given by the Foreign Minister; an affair at the exclusive Union Club - a club very similar to the National Club in Lima. I don't know of any clubs in the United States comparable to these in expensive architecture, ornateness and luxurious appointments. I imagine they were built at the turn of the century and would be impossible to reproduce now.

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CHILE

Cat. #1682
Memo #47

March 16, 1960

To: Mr. John Howe

From: William Benton

I am returning Mr. Romualdi's memorandum because I do not see what else I can do with it here in South America. He is enormously respected and very knowledgeable. Note that he represents the AFL-CIO here in South America. My impression is that he is their #1 policy maker applied to their Latin American policies and relationships.

Now of course one of the big issues the United States faces in Latin America is the charge that we are friendly towards dictators. Note in Romualdi's memorandum that the resolution in Caracas in '54, sponsored by Dulles, is aimed at communism rather than at dictatorships or the suppression of civil liberties. Note the greatly expanded resolution at Santiago in August of '59, when the United States fostered giving to the OAS "the power to investigate the relationship that lack of representative democracy and the suppression of human rights and civil liberties in one country may have with the threat with invasion from abroad".

This is a provision, I would gather, under which pressure could be brought on OAS to investigate what is going on in Cuba right now. You recall that Ambassadors Hill and Willauer favored such "prosecution" of Cuba - and Willauer thought that Costa Rica was the best country to make the charges.

This material is immediately applicable to some of the issues covered in some of my other memorandums.

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Of course one of the great issues involved here in Latin America is the extent to which these countries must break out of their watertight compartments and unite. Bolivar dreamed of a great united South America, though he recognized a far greater problem involved here, due to the racial complexities and the two great languages - (and more people in South America according to Ken Holland speak Portuguese than Spanish!). The Governor this morning expressed the feeling that the way in to integration will probably have to come through economic policies, notably the present effort to develop "a common market". Ambassador Puga said that United States policy had opposed the common market here until recently. I had not heard this and expressed skepticism and asked for some evidence. His reply is illuminating. He said, "It isn't so much that the United States overtly opposed the development of a common market; but it did not indicate that it favored it; by its failure to take a policy of approval, and to provide encouragement, in substance this meant opposition and it was impossible for these countries to get together".

The Ambassador pointed out that 80% of Chilean products now have free access to the United States markets, "Except when copper drops below a certain price and has to carry a tariff" - and the Governor asked whether it wasn't true that 80% of all Latin American products had free access to our markets - thus, for example, we have no tariffs on bananas or coffee. I commented on the unhappy discrimination against Peru in its four key exports, but Peru would not be typical. We should get some basic figures, which should be easy to assemble, in this economic area. I do not believe the Latin American countries themselves would want a full and free market which

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today would include the United States. Mr. Prebisch points out that they definitely need some protection if they are to industrialize. Thus the steel costs at the new and modern mill in Concepcion in Chile are 25% higher than Pittsburgh. They won't achieve parity with Pittsburgh until the present capacity of 475,000 tons - is boosted to between 800,000 and 1,000,000 tons. This is an excellent example and we need seek no further. These figures are correct and came to me from the present head of the Central Bank in Chile who was formerly in charge of the steel company.

We shall have to discuss the common market in the article - and the basic material should now be assembled.

Dictated in Chile
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CHILE

Cat. #1686
Memo #51

March 14, 1960

MISCELLANEOUS NOTES FROM SANTIAGO, CHILE

I was told flatly today that 21 percent of all the irrigated land in the most valuable areas of Chile is "in natural pasture." (In other words, it is being wasted.) This comes from Mr. Swenson, Deputy to Mr. Prebisch. Mr. Swenson is a Minnesota-Norwegian Democrat who worked in Washington during the war, ending up in UNRA, and who has been here for ten years. He came down to spend only a year! He tells me that ECLA, of which he is Deputy to Prebisch, has a report to show this great waste of land. I pressed him for the reasons. There are several. The owners of the big estates don't need the extra revenue, and thus they allow a big part of their land to remain uncultivated. Secondly, there is the acute inflation in Chile. Owners don't want to sell the land because they will do better keeping it - as a hedge against inflation. And there are many others.

Mr. Prebisch and Mr. Swenson suggest that Beltran of Peru and Alessandri of Chile - that they are indeed the "Hoovers of Latin America". (Don't quote them!) They say that Beltran and Alessandri are "able, incorruptible and responsible" - yet they are the Hoovers. Now this is an important angle applied to my title, "Voice of Latin America". (They don't like the phrase, "Voice of South America" and I've decided I don't either.)

Mr. Prebisch says that he likes to compare the problem here with birds - air problem of leadership. Birds lay "quiet eggs". He says the problem in Latin America is to lay "the eggs for eagles". He says that Latin Americans need "eagles". And when the Latin

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Americans say this they think frequently of Franklin Roosevelt. I of course replied that there are not many Franklin Roosevelts - and there are damn few eagles - maybe some of these countries are now lucky to have Hoovers.

* * * * *

Another anecdote. This afternoon my phone rang frantically. Governor Stevenson had sent a cable to Dallas. The cable company wouldn't take it. I was informed that there were six Dallases in the United States. Would I guarantee the cable if it went to Dallas, Texas?

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CHILE

Cat. #1685
Memo #50

March 16, 1960

MEMORANDUM ON VISIT IN CHILE BETWEEN FORMER AMBASSADOR TO WASHINGTON, AMBASSADOR MARIANO PUGA

GOVERNOR STEVENSON AND SENATOR BENTON

A former Chilean Ambassador to Washington is an attorney named Puga - Mariano Puga. He had dinner with us in Pucon last night. I asked him to explain the charges of the opposition leaders that the copper companies here in Chile had special privileges. This was one of their major charges when they called on the Governor on our last morning in Santiago. One of them is going to write me a letter documenting the charges. Mr. Puga said that when he was a deputy, in 1951 or '52, he assembled figures and presented them and caused quite a sensation with them. These were figures on copper exports from Cuba between 1931 and 1952, for 21 years. 52% of the money paid for this copper in foreign markets was spent in Chile - on wages, new investments, expansion, et cetera. But $847 million, or 48%, remained outside of Chile. This in part is the basis for charges by socialists and other leaders that the natural wealth of Chile is being exported, without adequate compensation to the Chilean economy.

A new law affecting copper companies was passed along in 1956. In recent years, only about 25% of the total value of the copper is remaining overseas, while approximately 75% is invested or paid out within Chile. (But Mr. Puga and many others are uneasy because much of this 75% goes to the Chilean Treasury, in big chunks, rather than finding its way into private investments - where he thinks it would be more beneficial to the economy.)

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Mr. Puga thinks that the copper companies today are indeed "over assessed"! Far from having special privileges, he says, they may not be permitted to earn enough on their investment. He says they have increased their investments by $250 million or thereabouts in recent years.

I think all such figures should be easy to gather and verify. Mr. Howe might start by asking the Public Relations Department of Anaconda and Kennecott to provide an analysis! We can compare their analysis with the report that is allegedly to be sent me.

We have been told several times here that the total investment today of the copper companies is $600 million. This must include the recently invested $250 million. Looking only at Ambassador Puga's figures, which he showed us in detail this morning after our dinner - it does not seem to me that the net return to the two big companies, represented by their sales price for copper in world markets which is not returned to the Chilean economy - and part of them of course must cover their expenses outside of Chile while only part accrues as profits or dividends - this retained income does not seem to me to be excessive.

Ambassador Puga referred to a law of many years back which did indeed give these companies, also the nitrate and iodine companies, the privilege of keeping monies outside of Chile which accrued from export sales. (And Mr. Puga keeps insisting that 48% is much too much!)

Mr. Puga would like to see much more private investment in Chile in enterprises such as oil. And of course he points out on oil that the first need is to take care of domestic consumption; over and above domestic consumption comes the exports which can then be converted into foreign exchange.

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CHILE

Cat. #1688
Memo #53
March 14, 1960

MEMORANDUM

(CHAT BY SENATOR BENTON WITH MICHAEL KARNIS, CULTURAL OFFICER IN SANTIAGO)

The Cultural Officer here in Chile, Michael Karnis, says he spends 75 per cent of his time on "exchanges". This of course is the role of the State Department. Thus in effect he spends three-quarters of his time for State Department responsibilities (those which Bill Fulbright kept in the State Department, the student exchange and cultural area!) - while he spends one-quarter of his time under USIA. Yet he regards himself as a USIA employee.

I have a lot to learn about our domestic legislation applied to these programs. He told me of Public Law 584 which gives permission to use 480 funds to promote the Fulbright Program. Originally, the Fulbright Program was financed by money derived from the sale of post-war surplus property. Now seemingly we have a new Public Law 484, which converts funds known as 480 Funds, which I gather grow from disposal of agricultural surpluses, to the purposes of the original Fulbright Act. I would like to have a quick memo explaining what is happening in this legislative area, and I'm sending a copy of this to Newt Minow so that he may give this to me.

Mr. Karnis says that three years ago, under then existing legislation, $700,000 was allocated for exchanges by a "country team". He says the Ambassador really made this allocation. And this came out of the total 480 Funds for Chile.

This $700,000 gave Chile an exchange program "second only to Brazil". The program includes several forms of exchanges, and this

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must apply in many countries, and I have not understood the breadth and scope of the exchange program since I was sponsoring it 15 years or so ago in the State Department.

1. First there is the USOM training program, and this sends many, many people to the United States.

2. Secondly there is the military training program, and of course this sends many people, under the auspices of the Defense Department.

3. Thirdly, there is PL 402. (This seems to be the State Department Program of Exchanges - and Mr. Karnis says $198,000 is allocated this year to this program.)

4. Then there is the great program of private exchanges, and of course Mr. Karnis is asked to play a key role on many of these, principally, I gather, the clearance of students from the standpoint of their quality - and their passports.

5. Fifth, and finally of course, there is the Fulbright Law 584, and under this students move in quantity both ways.

(I think I should have a quick memorandum describing these five different forms of student exchanges and roughly how they work.)

Mr. Karnis says that he's responsible for processing the last three. This year he has administered a program of about $500,000 (Pl 402) under 480 funds.

Under the three different programs for which he's responsible, he has a total of 500 exchanges, both ways, including professors, lecturers and technicians. His fear is that funds under 584 will be

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depleted, greatly reduced from the $700,000 spread over three years - to only $300,000 at the very top, spread over three years. (He says that a new agreement is now being negotiated for only $3,000,000 and he thinks he will be lucky to get ten per cent of this $3,000,000 - over three years.)

Mr. Karnis feels that the exchange program is "our most vital long-term program applied to building our relations with Latin America". He's not alone in thinking this.

I asked him about the program for teaching English. He says that one reason that Chile has such a big program is that English is better known and more highly regarded here than in any other South American country. He says that six years of English is required for every high school graduate in Chile. He hastily conceded that English was not well taught.

He told me of the 13 "Bi-National Cultural Centers" sponsored by the USIA. These have 7,000 students studying English. They have eight U.S. citizens assigned to them as "USIA grantees". They recruit many Americans locally to help them teach English.

The teaching of English largely produces the revenue to support these centers. However, the USIA has a budget here of about $125,000 - and roughly 20 per cent or $25,000 of this budget is allocated to these 13 centers. (About $2,000 a year per center on the average.)

Although the teaching of English produces the revenue, Mr. Karnis attaches high importance to the cultural events - the lectures, the discussion of folk lore, the social events such as camera clubs, stamp collecting clubs, mountain hiking clubs, et cetera - the movies, et cetera.

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In response to my question, he told me that the British have five such centers here in Chile; the French have three; the Germans have three; the Italians have two; and Red China and the Soviets each have one.

For the most part and on the average, Mr. Karnis thinks ours are better, at least in their appeal to youth. He concedes that the French and others may appeal equally or even more to older people.

Mr. Karnis agreed that Britannica Films belong in the film catalogue. He says that the films in these centers are "generally informative". He wants more than this from them.

And he told me that a former ambassador killed off the independent library under the USIA and consolidated all American libraries in Santiago into the Bi-National Center. I visited the library. Behind the desk of the librarian with a 1937 set of the Britannica, very dirty and well-thumbed. It occupied a place of honor all by itself.

Mr. Karnis said that 75 to 80 per cent of Chileans are literate but that the literacy rate is declining. Chile has prided itself on being in the vanguard in the fight against illiteracy - but now 18 per cent of urban people are illiterate and 22 per cent of rural. Indeed, there are no schools to attend for many children. The population is going up 180,000 a year, schools cannot be built or teachers trained to keep up with this population increase.

Many schools of course are running in shifts, with part time teachers or underpaid teachers.

Mr. Karnis, in response to my question, said that he agreed with Mr. Bennett, USIA officer in Quito, on the great lack of textbooks -

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and suitable English teaching materials - even though Chile is much more advanced than Ecuador.

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I'm attaching Mr. Karnis' card. I'm also attaching a little folder which he gave me. The little man at the right in the cartoon is the "John Doe" of Chile. I'm also attaching several folders given me by the manager of the Cultural Relations Institute in Cuzco, Mr. Bernard.

A whale of a job needs to be done to tie together the information I am sending through. For example, these pamphlets on the Cultural Relations Institute in Cuzco. Someone glance through them to see if an interesting angle can be developed on them - applied to the article for the Yearbook. Please note the personal inscriptions!

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CHILE

Cat. #1687
Memo #52

3/16/60

CALL UPON GOVERNOR STEVENSON IN HIS HOTEL SUITE BY THE OPPOSITION LEADERS IN THE CHILEAN CONGRESS

This was the last morning in Santiago, as we were leaving for the plane, and I did not get the names of any of these political leaders. I'm sending a copy of this memorandum to Mr. McCausland hoping he will comment on it, because I'm sure there are inaccuracies due to my inability to hear all of the translation - and hoping that he may perhaps fill in any missing material and give me some of the names.

As I entered the Governor's suite, a good looking younger man of about 40 with horn-rimmed glasses was speaking passionately along the line that the present administration "approves the existing order". He said, "We who are here with you want change; this has happened in France during the French revolution; it happened in the United States in the Civil War; we in Chile are held back by anachronistic institutions. The lack of food here in Chile is causing inflation, yet there is fertile land which is not being used".

The speaker went on with fervor, "First, we need agrarian reform. Secondly, we need capital. In our exports of copper and of nitrate we are shipping our capital abroad. Six hundred million dollars of such capital has gone abroad in ten years, yet according to your own Department of State the total U.S. capital investment in these enterprises is only six hundred million dollars. These firms should contribute more to the Chilean economy. Thirdly, we want to correct the imbalance of wealth. Our rich Chileans don't save money as rich

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people do in the United States; they spend it. The Governor agreed that he wanted the rich people of Chile to save and to invest in Chile! We must have social reform to incorporate the income of our rich people into our economy.

"Fourthly, we need foreign capital, such as for the development of our oil production. The United States and the Export-Import Bank won't loan us money for oil exploitation. Thus they push us into other hands. We understand that you in the United States have an anti-monopoly bill originally created by the opposition of your government to the oil trust, the Standard Oil Company. Why is oil as a monopoly in private hands bad for the United States - but good for Chile? You should oppose a private oil monopoly here, and should help us develop our own oil industry.

"Fifthly, United States policy should not be identified with the privileged enterprises of the kind which operate here under American ownership and direction".

(Later on I asked this speaker to document for me the special privileges which he charges are enjoyed by the American copper companies in Chile. I wasn't able to understand what these were. He is going to write me and expound. He's going to write me in New York, please have the material translated and please acknowledge.)

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Another speaker wanted us to understand that Chile is not totally undeveloped - that it is ahead of many other Latin American countries - that the inflation has held back capital development in Chile - and that costs have been high in certain fields such as oil. He said that the Chilean economy could not properly be developed by private

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capitalism, on the U.S. model - or by state capitalism like the U.S.S.R. He wants the United States to process 30 per cent of its copper here.

The Governor asked about the wages paid by the copper companies in Chile, whether these were not a contribution to the Chilean economy. We were told that 65 per cent of the dividends of the copper companies stay in Chile. (A lot of the figures about copper are not clear to me, as illustrated by another memo in which I ask for clarification.) The Governor asked just what the special privileges of the copper companies were. These were never spilled out so I could understand them.

The Governor suggested that some of the conversation seemed to attack private capital from abroad on the one hand, and to ask for more of it on the other. The Governor pointed out that private capital will naturally go to those countries where there is an opportunity for profit. He warned these political leaders that there wasn't enough government capital available to do the full job for Chile; that they would make a great mistake if they slam the door on private capital; that they needed private capital as well as government capital. He asked why the Chileans did not work out some scheme on oil "like the Argentinians".

The Governor patiently explained that the World Bank funds were limited. He suggested that perhaps one reason the World and Export-Import Banks didn't want to invest in the Chilean government's oil company was that private capital was available for oil exploitation. I mentioned the risk involved in oil exploration and development, but the Governor said he didn't think this was the key point.

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Another speaker said that the discussion illustrated how hard it was for the United States to understand Chile - and vice versa. He said that the traditional structure of Chile was "founded on private property and this is a paradox when 70 or 80 per cent of all the people of Chile have no private property".

One of the speakers warned that if there was no economic development for his country - for Chile - then the whole "western system runs the risk of disintegration". He said that "the dynamics of western society demand Chile's development - and the incorporation of all underdeveloped countries into a general world system". The speaker contended that the private capital system, giving rewards to investors, distributed these rewards at "different levels" (I suppose this means too much to the rich) - and that for this reason the capital must be provided "at the public level". The speaker said that this was the way to "increase world commerce and mutual exchange".

The Governor said that he did not quarrel with many of the statements made, but that he felt the last speaker was wrong when he claimed that private capital necessarily "protects the old levels". He said that the United States had distributed capital, and eliminated great gaps between rich and poor, through taxes - high corporation and high individual taxes. The Governor's implication was clear that many of the economic problems under discussion were problems that only the Chileans themselves could fix. The Governor said flatly, "If you permit old and unjust differences to continue, it seems to me this is your fault and not ours".

Another speaker said that he opposed an economic system which reduces the buying power of the labor masses - in order to fight

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inflation. He emphasized that if the buying power and participation in the national income of the masses is not increased - then production can not increase. (This was clear contradiction of Alessandri's present policy to hold wages down.)

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Still another speaker said that the problems of the "different levels here in Chile," are not merely those of Chile alone. He wanted real time to discuss the matter!

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A congressman from one of the agricultural areas asked why the United States didn't help agriculture. He said that the steel mill gets the big loan, but contributes only two per cent to the economy - while agriculture gets no loan and contributes 37 per cent of the total Chilean productivity. He said the World Bank had been studying the problem of agriculture for ten years but doing nothing about it. The speaker regrets that Governor Stevenson and President Eisenhower have said that they approve the economic policies of the International Fund.

The Governor replied that he had said only that he approved the fight on inflation.

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Another speaker insisted that the Alessandri Administration's fight against inflation was "based on classical principles which make the rich richer". (The Governor laughingly referred to the "trickle down" theory which is discussed so widely in the United States.) The speaker further warned that present United States policy will inevitably become "very unpopular". He attempted to pin responsibility on

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the United States for holding down wages in order to combat inflation. He said that the policy of the International Fund "will create anti-American feeling". When the Governor suggested that perhaps the United States wasn't wholly responsible for the policies of this Fund, the speaker indicated that he thought that the policies were indeed made in the State Department. He said, "The Fund is international, its power is fully influenced by the Department of State." (This was the phrase of the translator.)

Another speaker volunteered that the Soviet Union is becoming interested in South America and is offering loans.

The Governor pointed out that the basic economic argument in Chile seems to be very much the same as that in the United States - between those who believe that inflation can be controlled through fiscal policies, strict and severe ones, and those who feel that it can best be met by a vigorous policy of economic growth. The Governor said he strongly favored economic growth but that he felt that Chile had reached a point where drastic methods were needed to curb inflation. He again warned the group against arguments and policies that would drive out private capital. He said that he hoped that credit and capital and lending agencies would develop in Chile for the benefit of private entrepreneurs. He further said he hoped that the Chilean economy would develop in such a way as "to get rid of the political feeling about exporting capital".

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I think the principal impression I had from this meeting was the strength and passion of the proponents of the various ideas -

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which were a mixture of sound and valid criticism of Chilean policies and U.S. policies also, mixed with doctrinaire political dogmas, misinformation - and emotional fervor.

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CHILE

Cat. #1704
Memo #70

3/4/60

CHAT WITH DON EDUARDO FIGUEROA,

PRESIDENT OF BANCO CENTRAL OF CHILE

Mr. Figueroa sat next to me at the luncheon given by the Foreign Minister. He is a small handsome bachelor in his middle forties. He spent five years in the United States, studied at MIT and actually worked in the steel plants in Pittsburgh and Chicago. Before becoming president of the Central Bank, he was in charge of the new steel mill which has recently been erected in Chile, financed by the Export-Import Bank.

The financing cost of this mill was $140,000,000. Eighty million dollars of this came from the Export-Import Bank. Twenty million dollars has already been paid back and the balance is being paid back on terms extending from seven to 15 years. The other $60,000,000 was put up privately and the mill is privately owned by Chileans.

The present production is about 450,000 ingots. Seventy-five percent is used domestically and 25 percent is exported. Mr. Figueroa says that the base price on the "hot steel" now is as cheap as in Gary, but the total cost is 25 to 30 percent higher because production has not yet been achieved for sufficient spread of overhead and financial costs. With double the present production, he tells me, costs will equal those in the United States.

Seventy-five percent of present production is being used domestically and 25 percent is exported. The latter must be sold at under cost of production. (I remember the old custom of our own steel companies - selling steel in Europe at prices much lower than in the United States!)

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Mr. Figueroa stresses the fact that the eighty million dollars borrowed from the Export-Import Bank was all spent in the United States, divided among a large number of suppliers, and thus created much business in the United States. He says that another $80,000,000 has been spent likewise. He told me of the 135 American families who during the mill's construction were living in Concepoion where it was built. He said these families did "very great good to achieving understanding of Americans".

Thirty-five young Chileans were sent for training to the United States and these men are now the departmental superintendents in the steel mill. Virtually all of them returned to take these jobs. I chatted with him about our visit to the University of the Andes and he likes the Bogota phrase, "The greasy handed engineers". He agrees this is an important aspect of what young men from Latin America learn in the United States - respect for work and how to work with their hands.

Mr. Figueroa says that steel is the best example of U.S. cooperation in Chile's industrialization, but copper fabrication is also an example. Copper of course is Chile's number one export. Nitrates are number two, and steel is now number three. Copper contributes 60 percent of the total exports.

Mr. Figueroa much prefers the Export-Import Bank to the World Bank. The latter requires government guarantees. This opens up the door for government ownership in many countries - or at least for government participation, if not government control. He strongly favors private ownership and control, which is easier to achieve,

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without government guarantees, and thus is easier under Export-Import Bank loans.

I asked him about ECLA and he thinks that ECLA is helpful in planning "along general lines" - "but of course ECLA has no money!"

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Cat. #1639
Memo #7

Bogota, Colombia
February 23, 1960

Meeting with a group of 15 or 20 Labor Union leaders, in Governor Stevenson's suite. Present, in addition to the Union Leaders, were Governor Stevenson, Senator Benton, and Robert A. Hurwitch, Labor Attache of the United States Embassy, who acted as interpreter.

There are two labor union confederations in Colombia. One is the CTC, whose president is Mr. Silva. The other is the UTC, whose president is Mr. Diaz. Both men were at the meeting. The former is the older and was organized in the thirties. President Lopez seems to have been one of the sponsors. It is the liberal and traditional group. The latter is closer to the church. Perhaps it can be described as a Catholic-oriented group. The two unions often cooperate, and often issue joint statements. The Governor asked whether they had jurisdictional troubles. The answer was, "There have been instances of problems, but we have an agreement not to pirate." He asked whether there was a chance for the two to merge together into one group. The answer was that talks have been going on, that the time is not ripe, but there is hope that it will come.

A recent census by the Minister of Labor reports that there are 1,000 local unions in Colombia. We are told that the UTC has the majority of members - or at least the majority of the dues-paying members. Two-thirds of all labor is agricultural. Here progress in agricultural unionization has been very slight. In the service industries and among white collar groups - the going has been difficult, very slow - but there's been more progress than among agricultural workers. The greatest progress is with industrial labor. The group estimated that 60

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percent of all industrial labor is now organized. (In the textile and petroleum industries, better than 85 per cent.) It is not very difficult to organize the industrial workers, when they are together under one roof, even though management often opposes organization, and seeks to destroy the unions after they've been set up. In general, in the industrial field, "Labor has imposed organization during the last ten years".

The Governor asked whether they were pushing at all times in an effort to increase membership and the answer was an unequivocal "yes".

The UTC and the CTC do not divide up the field by agreement. Nor is one vertical and the other horizontal. Both compete for union's right across the board. The majority of the textile workers is in one of the unions, but some textile workers are in the other. A majority of petroleum workers is in the other union, but there are some who are organized who are not.

Both the unions belong to ORIT (Organization Regional Inter-Americano de Trabajo) and both belong to the ICFTU (International Confederation of Free Trade Unions). The latter is the world organization of free labor unions which was organized in opposition to the WFTU, the communist-dominated world organization. ORIT is the Latin American subsidiary of the ICFTU. Mr. Hurwitch says that ORIT is almost wholly the single-handed creation of Mr. Romualdi - whom we met at the briefing session at the Institute of International Education.

Mr. Silva, president of the CTC and the senior labor leader present (he was also much the older, perhaps a man in

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his early fifties - in contract to the rest of the group, whose average age was perhaps in the late thirties) - Mr. Silva says that both unions regard themselves as defenders of the democratic way of life and that both stand for peace in the nation.

The Governor asked about the problem of communist infiltration. Mr. Silva replied first "as president of CTC". He said that the communist threat is a general threat and is world-wide and of course affects Colombia. He said that the communists have indeed penetrated into the unions in Colombia. Those who oppose the communist leaders and propagandists "are called 'anti-democratic', in the pay of Yankee imperialism". Mr. Silva thinks that the communist danger has lessened because their propaganda is "a worn-out record". But he concedes they have "succeeded somewhat" - mostly in his own union, the CTC. They have captured some of the local unions. He warns that the democratically disposed labor union leaders must be alert.

Mr. Diaz, president of UTC, then spoke to the same question. He said that the communist campaign is strong and very difficult to combat by the non-communist leaders. Working in the favor of the communists have been the economic conditions in Colombia and the extreme poverty. The latter is readily exploitable. Mr. Diaz said that reactionary factory owners help the communists when they refuse to meet with the democratic union leaders. Mr. Diaz said the UTC had had to expel some unions which had fallen under communist domination.

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(Although the rural workers are not more than five percent organized, and many unions in the rural areas are of construction workers - these have been heavily infiltrated by communists, where violence has been common.) Another group that has been the object of communist infiltration has been the construction workers union.

The Governor asked about communist influence with petroleum workers. A leader representing a petroleum union replied that the world is indeed split into two camps. He said that there is world-wide competition between the two systems. In this struggle, as part of the communist campaign, the Soviet labor union agents concentrate in those areas where United States investments predominate. Such an area is petroleum. The communist agents mask themselves as liberal leaders; they infiltrate into the petroleum unions; they play up the predatory goals of American capitalism. Although a great majority of union leaders in the petroleum industry are democratic leaders, the speaker reported that the petroleum union depends for its legal counsel upon a most charming and able attorney who was a former communist (Dr. Diego Montana Cuellar) and who is still "very close" to communism. This man has an influence "out of proportion".

I asked about the present efforts of Cuba to exert leadership in Latin American labor groups - notably the efforts attributed to Fidel Castro's brother Raul. Mr. Espinosa, who Mr. Hurwitch said had traveled widely, replied that there

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was no influence as yet in Colombia emanating from Cuba. But he said that Cuban efforts can cause much trouble. He is just back from Caracas. Mr. Espinosa said that in Caracas he saw clearly "the Soviet hand behind Raul's idea of a neutral South American labor movement, a third force playing up nationalism". Mr. Espinosa thinks this Cuban movement will "pose grave problems". Its aim, he says, is to destroy ORIT and ICFTU.

Mr. Silva spoke on the same question. He is just back from an Executive Board meeting of ORIT at Miami. The Cuban leaders "boldly" (because they are indeed direct competitors of ORIT) asked ORIT to send representatives to a proposed meeting of the "third force" which is shortly to be called in Caracas (or Havana). Mr. Silva is hopeful that ORIT will successfully counter the Cuban threat. Plans are being made to combat the Cubans. Mr. Silva even went so far as to say that he was "optimistic". However he urges upon Governor Stevenson and upon Canadian and American labor leaders - that they become more aware of the Cuban and communist threat and that they help publicize "the plight of their South American brothers".

In response to another question from me, we were told that the labor groups most friendly to Raul Castro and his communist dominated efforts - are those in Venezuela, and also parts of the Chilean and Bolivian labor movements. These groups have all indicated "an interest in going along with the Cubans", said Mr. Silva.

The foregoing caused the Governor to ask for guidance on what he should say as he goes through South America. I

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asked that Silva and Diaz prepare any suggested statements so that we could take them along and study them. (They didn't!)

The Governor then asked for frank criticism of United States policy. Mr. Diaz said that gifts from the U. S. were not sought, but that loans were needed. He didn't answer the Governor's question directly, but told us about the national apprenticeship service (NANS) which trains young Colombians. Not long ago bids were asked for machinery which is required to help in the training. Mr. Diaz said that the U. S. firms put in the highest bids and offered the worst terms. The European bids were much better. Mr. Diaz is bothered by the United States' failure to understand the importance of this enterprise, and by the failure on the part of American manufacturers. I attempted to point out that the manufacturers' bids are not related to our government's policy.

Then of course, said Mr. Diaz, there is the problem of the prices the U. S. pays for raw materials such as coffee.

The leader from the petroleum union (Luis Alfonso Perdomo) who had spoken earlier suggested that Governor Stevenson call upon American business men abroad to show much greater understanding of the problems of Colombia and other workers. He said that the United States has been hurt by the alliance of our big business leaders with Latin American dictators who oppress the workers. He spoke of "a McCarthy-esque attitude" on the part of our business leaders overseas. He

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said they have joined hands with the dictators to label efforts at social progress "a socialist plot".

I asked whether American business wasn't improving in its alertness to the importance of these social problems. The petroleum leaders said that American business had indeed improved since May 10, when the Rojas dictatorship fell!

Mr. Diaz and others responded to the Governor's request for criticism of U. S. policy by saying that Colombia and other countries "want the good neighbor policy of FDR and the good partnership policy of President Eisenhower" - but they hope these policies can be implemented by acts and deeds - good acts and deeds are needed as well as good words. The labor union leaders look around and see poverty everywhere, very low standards of living. They don't expect to develop standards to rival those of the United States. But they do want their living standards raised to the point where they can develop "the feeling of dignity which Governor Stevenson has emphasized" - in a framework of liberty. The Governor asked whether this was one way of asking for greater financial investments from the United States.

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Cat. #1641
Memo #9

INTERVIEW IN HIS OFFICE WITH DR. JARAMILLO,
GOVERNOR OF THE STATE OF ANTIOQUIA OF COLOMBIA

Governor Stevenson and Senator Benton

Antioquia is a state in Colombia. Medellin is its capital and is said to have a population of 500,000. Antioquia itself has a population of two million of Colombia's 13 million. Although Medellin is the richest of Colombian cities, and is the manufacturing city in contrst to Bogota, something like Milan in contrast to Rome, many of Antioquia's people live in lowlands that are poor and unhealthy. I was told by an investment banker, named Dr. Jose Gutierrez Gomez, next to whom I sat at Governor Jaramillo's luncheon, that practically all of Medellin's leading citizens are native born, of old families, and that practically "93 per cent of the capital invested in manufacturing comes from local sources." Textiles are the big industry and production efficiency is claimed to equal any in the world except Japan.

Few people from the outside have come and settled here in recent times. Cali, which is much better located from the standpoint of distribution of manufactured goods, is the headquarters for the Container Corporation plants and for many other American businesses.

There are about 200 Americans now living in Medellin. Three years ago there were 600. The decline is accounted for by greater decentralization of American industry in Colombia -

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and by the fact that more Colombians are being employed to replace Americans. The city has grown rapidly, with over half a million population, and the contrasts are sharp between the wealthy families and the beautiful residential sections on the one hand - with great and widespread poverty and undernourishment on the other.

Governor Stevenson opened the interview by asking Governor Jaramillo what his principal problem was. Governor Jaramillo is a good looking, attractive man of about 50 who has served for a total of 12 years as Governor, now in his third period of service. He lived for years as a political exile in the United States and his English is good. He serves at the pleasure of the President. He says that his problem is money. He used as his illustration the fact that 8,000 children in Medellin can't go to school because there are no suitable facilities. I later inquired about the number of children of school age and was told that the total was 40,000 - or else that there were 40,000 in school - I don't recall which - but the estimate seems very low in either case, out of a population of 500,000. Of course "school" refers only to the six grades. Governor Jaramillo explained that the city of Medellin is supposed to build the schoolhouses; that state of Antioquia is supposed to pay the teachers; and the federal government helps in various ways. The Governor explained that the problem of revenue is very tough for the states because "Congress takes the new revenues for the federal government".

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In response to a question from Governor Stevenson, the Governor said there was a gasoline tax and that the federal government helps build the roads between the various states. He said that the federal corporation tax rate was 36 per cent. There's also an income tax which runs up to a maximum of 52 to 57 per cent. Of the 15 million citizens of Colombia, about six million or 42 per cent are employable. Of these, only 200,000 pay any income taxes. I gathered that everybody is required to file a return and pay one peso (fifteen cents) - but this should be checked. I gathered that this return may be related to registration for voting. (Governor Jaramillo said that political participation was stepping up sharply because of the inter-party fighting, the struggle of the groups for control of the two old parties, and also because the vote has recently been extended to women. The Governor laughingly commented that the women are greatly interested.)

Governor Jaramillo said that his state collects revenue from a tobacco tax and also enjoys a liquor monopoly.

In response to a question from Governor Stevenson, Governor Jaramillo said that the trade unions were spreading and growing; that most industries were organized; that workers' demands were growing; that first the workers tried to work out their agreements directly with the employers, but then went to arbitration, which, however, is strictly voluntary. We did not pursue the matter of communist infiltration.

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Governor Jaramillo does not feel that the communists are particularly responsible for the disorders that have been so prevalent throughout Colombia since 1948. He said that in his state, the bandits had been cleaned up and the disorders were at an end. (I was later told that one reason Medellin has grown so rapidly is that people came to the city to secure police protection and to avoid the risk of death in the country.) The Governor showed us, on a map of Colombia, the state in which "banditry" is still prevalent. I did not get the name of this province but it is the same area of Colombia which is famous for its archaeological remains. The Governor said that the army was mopping up these disorders; that the bandits were largely groups of only three, five or six people; that 95 per cent of the country was now at peace; that he expected complete quiet and peace by the end of the year. I told him of the map we had seen in Washington with the various shaded areas showing communist-dominated areas of Colombia. He says this map is now obsolete.

Newspaper men were present throughout the interview and I had the feeling that this made candor on the part of the Governor impossible. Governor Stevenson and I later chatted about the fact that we have difficulty securing information about the communist areas which still exist here in Colombia. In Washington we were actually told that they are better run and better governed than the balance of the country, and that this is the fundamental reason why it is difficult to eradicate

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them. One of our Consuls here told us that the killings in the country are still running at the rate of 25 to 50 a week. Mr. Silvert's memorandum gave us an estimated total of 100,000 since 1948, and this was confirmed during our dinner last night by a talented young textile executive named Fernando who is a vice president of the company of which Burlington Mills owns 50 or (I believe) 60 per cent. Fernando emphasized that these killings had occurred largely in the country districts, with very few in Medellin. Mr. Fernando said that many city people had been killed when they visited their country homes. (Of course it is this kind of threat and peril which has pulled the Conservative and Liberal Parties together and which helps explain why all the top people we've met here in Medellin, whether Conservative or Liberal, speak so enthusiastically of President Lleras Comargo.)

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A few other quick comments on my observations and conversations here in Medellin.

The American community with whom we visited at a cocktail party at the country club (very similar to a country club in any mid-western city - John Fell Stevenson said a dance he attended there was "just like at home"), and for whom Governor Stevenson answered questions - is greatly interested in American laws which will give assistance to American industry in its competition overseas with the Italians, French, West Germans, Swiss and others. In many areas we were told we are

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being undersold. There was considerable feeling that institutions should be developed which would permit our industries to extend more liberal and generous credits.

The Medellin business community here is very friendly towards the United States and many of its members (and their sons) have been educated in the United States. The leading citizens here, who are rich and come from powerful families, are exceedingly attractive personally, very cordial and agreeable, genuinely pleased and flattered by Governor Stevenson's visit.

I think it's fair to say that the opinion is widespread that Colombia is entitled to every special break from the standpoint of U.S. policy because it is so friendly towards the United States - and because of its long record as a democracy and its present determination to maintain its democratic institutions. The church is powerful here and there were Catholic dignitaries both at Lancaster's dinner (our Consul) for us and at the Governor's luncheon.

I visited at some length with the young 46-year old engineer executive, a former Ambassador to Italy, who has recently been made the head of the utilities here in Medellin. All - electricity, gas, telephone, water - are combined into one company which is municipally owned. This is the common pattern in Colombia. (This man told me there are about eight foreign-owned or controlled utilities.) My informant thinks that foreign capital is unwise in investing in Colombian utilities, and I agree. The attitude of President Lopez Mateos

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in Mexico bears on this. The Mexican President won't permit the electricity rates to go up, as a political matter, and without higher rates it's impossible at present to raise new capital. A similar problem is faced here. The rates will have to go up to finance greatly needed expansion of Medellin utilities. The shortages here are acute. I saw a queue waiting for a bus that was two blocks long. The people at the end of the line had a wait ahead of them of a minimum of an hour. One of our Consuls told us of one of his servants who needs a minor operation. She's on a waiting list with six months to go. These are small evidences of the urgent need of the people in this comparatively rich city.

Governor Stevenson and I walked through the market. The stalls were small, unkempt and dirty. The market was not too dissimilar from many of those in Asia. It contrasted sharply with the clean, modern market building which we visited, three or four blocks long, a great covered concrete building, in Mexico City. The Colombian with us commented, "Look at all this food and yet people are hungry here in Medellin".

In a ceremony at City Hall, Governor Stevenson and other members of his party were given a parchment scroll declaring the hospitality of the city and giving us the counterpart of the freedom of the city. I shall attach my scroll. The Governor was also given a golden key. These scrolls are Decree 39 of 1960 of the City Council, signed by "El Alcalde de Medellin". (The Mayor.)

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Later I chatted with our Consul in Medellin, Mr. Bruce Lancaster, about Governor Jaramillo. The Consul praises him highly. He says Jaramillo is from the "upper middle class" and can earn a very good living professionally - thus is not dependent on his job as Governor. He has turned down several ambassadorships overseas because the President needs him as Governor. The Consul thinks he's one of the two or three most important Governors. But he says that even this enlightened Governor, who admitted to Governor Stevenson and me that the gap between the rich and the poor here in Medellin is much too great, is not remotely as enlightened, applied to current social problems, as men in both political parties in the United States. The Consul says there is no sense of social responsibility here among the rich people, and the ruling classes, as we understand it in the States.

Mrs. Lancaster told us of the difficulties in raising a thousand dollars for a children's hospital to separate the infectious cases, such as the children with measles or mumps, from other children in the same ward. This money had to be raised by selling cakes through her Episcopal church, which has 60 members, and in other such ways.

The Consul said, speaking of the attitude towards workers in the factories, "If a guy falls into a saw and cuts off his arms - he's fired, and if he's killed, well that's all right". He said further, "Begging is a good profession here". When I asked him whether the town had a hundred millionaires, he

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replied, "At least one hundred". But they do not give their money to hospitals or charities. A recent hospital being built by the Manufacturers Association here was called off, in mid-stream, when half built, because the government passed some compensation laws - and the feeling then was "Let the government do it!" (I'm not sure I've reported this story exactly and it should be checked with Governor Stevenson who was with me when we heard it as we returned from the country club.)

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February 24, 1960

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Cat. #1642
Memo #10

February 29, 1960

DINNER BY PRESIDENT OF COLOMBIA AND OTHER
FAST OBSERVATIONS IN BOGOTA

The enormously popular and revered President Lleras gave a dinner at the Presidential Palace, at which he lives, a stag dinner, at which I would guess there were perhaps 70 or 80 seated at one table in the big dining room. A great oil painting of Bolivar dominated one wall - with enormous 18th century tapestries of shepherds and shepherdesses in idyllic romantic poses, on either side of the portrait. Along the other wall ran a balcony and below the balcony was a courtyard in which the band of the Armed Forces played. Before the dinner President Lleras showed us through many rooms of the Palace, including the romantic room that holds a tall portrait allegedly of Bolivar's most famous mistress, Manuella - or Manuellita as she is called in the diminutive.

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After the dinner, and the key speeches, the guests again adjourned to the great drawing room and we stood around for at least an hour and a half. Coffee was served, and the waiters carried trays around offering various cordials. Very few people sit down. The problem is that a visitor finds himself with one or two men and does not know how to extricate himself. There is no system for moving people around or shaking them up. (I complained to Governor Stevenson about this the next day and he says he has a system: when he finds he has run out of conversation with a man to whom he is talking, he brings up a subject and then suggests,

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"Can't we find someone who can tell us about this?" - using his companion to introduce him to someone else!)

I was very fortunate in the two companions who addressed themselves to me for a full hour and a half. During the latter part of the conversation, when it was after midnight, we found our way into the main room and there we found Governor Stevenson in close and private conversation with President Lleras; when it was close to half past twelve, I discovered that some of the guests had excused themselves and left. I did the same, and the Governor's son, John Fell Stevenson, left with me; and ten or fifteen minutes after we reached the hotel the Governor followed so I later wished I had stayed until the end of the party in order to say good-by to the President.

My two companions were Dr. Samper, Rector of the University of the Andes, and I shall cover my discussion with him in another memorandum I am writing about our visit to the University - and Dr. Rafael Parga Cortes, the Governor of Tolima Province, who lived for many years in London and speaks excellent English - and who mentioned, as part of his background, that he had been Minister of Education in Colombia in 1943.

Dr. Parga, who laughingly said that he had been 30 years a politician, is Governor of the Province where the greatest violence still exists here in Colombia. He estimates that on the average there are ten to twenty assassinations in Tolima each week. He is a man in his seventies and is seemingly greatly respected. I gather that he moves unmolested through his Province. I tried to discover from him why it is impossible to put an end to the violence and he told me the oft repeated story of the men who have been

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assassinated; whose children have seen their parents murdered and their sisters and mothers ravished, who become themselves vengeful murderers and bandits at ages as early as 10 and 12; et cetera. He says the problem now is to teach the guerrillas who later become bandits - to teach them how to do useful work. Some of the younger ones hold work in contempt and have spent their entire lives as guerrillas and bandits - and the problem is to set for them a good example - some of the older ones that they respect.

The Colombians are charming and most attractive people and Dr. Parga is an excellent illustration. It is very difficult to understand the streak of cruelty and violence which runs so close to the surface. Colombia has suffered some three civil wars and some 40 or 50 minor outbreaks between the two parties. The hate and bitterness between them is traditional, even to the point where they seldom seem to inter-marry. There are more liberals than conservatives, but the conservatives have dominated in the rural areas and the high percentage of the assassinations, at least in the earlier days of the current violence were of liberals. The liberals dominate in the poorer city areas, notably in the areas populated by refugees who came to the cities to escape the violence.

Dr. Parga does not answer directly my questions as to how to put an end to the violence. He asked whether instead of disarming everybody, taking the guns and rifles away from all those who have them, it might not be better to arm everyone! I conceded that one hundred years ago on the frontier of the United States everyone had a rifle or two in the house!

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The theory here is that you won't be able to take the arms away from the bandits and guerrillas or others who intend to use them illegally - and all you'll do, in such a drive, is to disarm innocent people who may need their arms with which to protect themselves. This is the kind of question by which the Colombian politician is troubled.

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There was an argument between Dr. Samper and Dr. Parga about the rights of the students in relationship to the University and the faculty. Dr. Samper is a former businessman, only one year as Rector. The University of the Andes has pioneered in taking away from the students the legal rights they enjoy at most South American universities, described in part in my memo on the University of Mexico. Dr. Samper and I agreed that we don't feel that students belong on the University Council and we agreed they should not be given rights over the curriculum or over the professors; we don't approve of students' rights to force the professors to give easier classes and examinations, or to pass students who have failed. Dr. Parga, however, takes the side of the students. He defends their dominant role in University life, saying simply, "I'm a politician."

Much of the conversation is of course idle chit chat and the hour and a half drags out very long indeed, even though I was singularly fortunate in my companions. And the total of three hours on my feet, before and after dinner, in this high altitude - I must admit I found tiring.

(Governor Stevenson doesn't seem to feel the high altitude, in Mexico City or here, and I feel it only in two ways. I wake up in the morning rather early, around 6 or 7 o'clock, and lie awake for

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5 or 10 minutes, dozing, before I go to sleep again. I may do this two or three times. I never wake up in the north until the alarm goes off! Also, occasionally, I feel happy to lie down for a half an hour or an hour during the afternoon - the well known siesta which is practiced in Bogota as it is in these other cities in Latin America - when I can get a chance, which is rarely. The liquor is said to be much more biting in its impact in these high altitudes, but I have not noticed it particularly even though all of us are drinking more than usual because of the many functions).

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The President before dinner, as we visited the rooms of the Palace, explained that Bolivar's life was crowded with women and his appetite for them seemed insatiable, but Manuella emerged as the most famous. She wrote a famous letter to her husband who was an English physician. She said in effect, "My dear husband, you are an impeccable husband and I respect you greatly. But even you should understand why I leave you; how could you possibly fail to understand any woman leaving you for Bolivar?" (See page 199 - "The Four Seasons of Manuella" - for full text). The room in the Palace which is the center of romantic attention is the one in which Bolivar jumped out of a window about twelve feet above street level, and ran to get the help of his troops - while Manuella detained the conspirators who were searching the Palace for him. A famous aide-de-camp of his, a Britisher, named Colonel Ferguson, was killed on the stairway by the conspirators. The grandfather of the President was one of the conspirators. Manuella distracted them and put them on false scents, thus giving time for Bolivar to escape. (The next day we visited a

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beautiful and gracious home which was built in 1800 by a rich tobacco grower, who was in love with the wife of the Viceroy and used his home to entertain the Viceroy and his lady! - but which was bought in 1820 by the Colombian government and presented to Bolivar. (See page 244, "The Four Seasons of Manuella). Here Manuella lived and we were taken by the director of the home, now a national museum, through the beautiful garden walk, into the small house which contains a built-in pool of running cold water, used as a bath, and were shown the many rooms crowded with mementos of Bolivar, with walls hung with his portraits, cases full of his swords and other trophies, and of course the famous bed of Bolivar and Manuella, about 3/4 size, and with secret compartments in its legs!)

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Most certainly I shall want to describe one of these protocol dinners in the Yearbook article. Perhaps this is a good one. The hour is set for 8:30 or 9. In this case there was a receiving line consisting of the President and his Cabinet of Ministers - and after Governor Stevenson and I had gone through the line we were added to it, and then filed by the 70 or 80 guests. Following this was well over an hour of standing around while uniformed waiters served whiskey drinks. One waiter would offer a tray with the highball glasses, with perhaps an ounce of whiskey, and another would then ask whether ice and water was wanted - or soda. The guests would gather in groups, or by twos and threes. In our case the President took us through some of the rooms - but dinner wasn't served until a good 30 or 40 minutes after we returned to the main room. A colonel who was a military aide was hovering nearby. I think we sat down to dinner about 10 o'clock

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after being on our feet for an hour and a quarter (otherwise it would have been an hour and a half - we arrived 16 minutes late!) At all these affairs there are place cards. Three wines are served, white, red, and champagne. There's a printed menu and usually side courses. At the end of this particular dinner the President rose and read a 6 or 8 minutes speech in Spanish. When Carleton Smith stood up and offered to translate the President's address, the President said he would do his own translation. He then read his manuscript in English. Governor Stevenson had been making notes throughout the dinner and throughout the speech - as he always does, and then spoke with ease, with wit, with originality - and emotionally moving, with material closely keyed to his audience. One remark I should use that he made in his speech, "As Lincoln said, a nation cannot live half slave and half free; and Franklin D. Roosevelt said, "we cannot live half boom and half bust; and so I say that the Hemisphere cannot continue in peace and prosperity - while it is half rich and half poor."

P.S. - I am attaching the menu at the President's dinner!

P.P.S. - Governor Stevenson in his speech reminded us that President Lleras had previously been President of Colombia, succeeding President Lopez, when he was only 29 years old.

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Memo #10

February 29, 1960

FOOTNOTE -

At the President's dinner which I have described in another memorandum from Bogota, I sat between the Foreign Minister and a Mr. Araugo - another Minister in the President's Cabinet. Mr. Araugo is now acting as Minister of Labor. I told him Governor Stevenson and I had met with the labor leaders and I asked him who the lawyer was, to whom the leader of the petroleum union referred as the man who had influence "out of proportion". The Labor Minister had been visiting with this lawyer that very afternoon. He's a famous man here in Bogota. His name is Diego Montagna. Of course the Labor Minister states flatly that he's a Communist. He has many clients assigned from the Petroleum Worker's Union. He is a man of great power.

The Minister explained that although Colombia is the second largest producer of petroleum in South America, its production is only 150,000 barrels a day - versus Venezuela's 3,000,000. Colombia exports about half of its production.

He pointed out the obvious fact about the political affiliations of the members of the two big labor unions. The UTC, with its Catholic church influence, has a majority of members who are conservatives. The CTC, with its background going back to President Lopez, has a majority of its membership who are liberals. As Mr. Silvert told us, the CTC has had the greatest problem with Communists, and most Communists are in the CTC. The petroleum workers are within the CTC.

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Cat. #1650
Memo #18

March 1, 1960

MEMORANDUM OF VISIT WITH STUDENTS OF THE
NATIONAL UNIVERSITY IN BOGOTA

When the Governor was receiving his honorary degree, he was approached by a group of young men who sought a personal interview. They assured him they were non-Communist students of the University. Their movement is called the "Movimiento de Accion Popular" (Popular Action Group). How important is this group, or how much publicity it has yet received, I have not been able to determine. The students say it contains professors as well as students (and my other memoranda show the much greater importance of students in the political spectrum here in Latin America than we are accustomed to at home).

The leader of the group which called upon us is a most remarkable young man named Guillermo ("call me Bill") Mannetti. He's been living in the States because his father has been a key member of the Pan-American Union in Washington. The father is a leading intellectual, author of several books on sociological problems, and has just been named Director of an important division of UNESCO in Paris - the division responsible for liaison with UNESCO members.

The students made such an impression on the Governor that he invited them to a quick hamburger lunch at the hotel so they could do what they told the Governor they wanted to do - take us out to show us some of the very poor districts in Bogota,

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those occupied by the refugees. We asked "Bill" to bring along half-a-dozen students, all of whom spoke English. He showed up with ten or twelve and to the best of my own judgment, he was the only one who spoke English easily. At any rate he did all the talking. But most manifestly the other students, whose ages the Governor asked, and who were 21 and 22, many of them, all looked up to him. As a matter of fact, on short acquaintance, Bill Mannetti was one of the smartest young men I have ever set eyes on. (He's the kind I'd like for the Export Department of the Britannica!) He and most of his friends are in the second year of law school.

The boys had a jeep and the Governor and I rode in it with Bill and two of his friends to an area known as "Tunjuelito." This is said to be one of the oldest sections of Bogota. It is a new refugee section, settled in '47 when the refugees first began to come into the city and rapidly filled up between '50 and '53 when violence in the rural areas was at its peak. According to Bill, there are half a million refugees in Bogota, from all parts of the country. In response to a question growing out of our luncheon with Lauchlin Currie, who says most of the refugees came to the city in search of greater opportunities, Bill stated flatly that 450,000 of these refugees in Bogota were there because of violence in their rural communities, and their fear of assassination, and only 50,000 came to seek greater economic opportunity. A worker only earns five or six pesetas a day, but if he has ten children, as many have (seven out of ten

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children, according to Bill are illegitimate) - he needs ten pesetas! ($1.50) Because of this problem, Bill says there are 40,000 to 50,000 prostitutes in Bogota - "which is very high for a city of a million-two-hundred-thousand!"

And of course, the workers take to beer! Indeed, Bill says, "The great problem of the worker is beer - and it is beer which makes these workers drunk and then criminal." Bill says that Bogota has the largest beer consumption per capita in the world. (I had earlier met Mr. Samper, head of the big beer company here, which does 63% of the total beer business - and which, together with his other products, although beer is the biggest, did a $90,000,000 business last year.) Bill complained that beer "made husbands desert their wives." His arguments reminded me of those I heard in my teens in the U.S. (I was 19 when prohibition took effect on July 1st, 1919!)

Bill Mannetti is a passionate liberal. He states that the Right Wing conservatives were Nazis and Fascists and staged Nazi parades during the war and wanted the Germans to win. He said that in 1945, the Liberal Party was split two ways and this resulted in the election of a conservative president, Mr. Oseino Perez. Bill thinks that President Oseino Perez, with whom Governor Stevenson later had a lengthy visit - at his reception on the evening of our trip with the youngsters - Bill thinks that President Oseino Perez was a "moderate." But Gomez and other conservatives decided on violence as a technique of liquidating the liberal opposition. According to Bill, there were 225,000 more liberal votes cast in '45 than conservative votes.

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Bill stated flatly that the conservative reactionaries decided to assassinate 250,000 liberals. This was the beginning of the era of violence.

Governor Stevenson asked about the clergy. Bill said that 10 per cent of the clergy tried to stop the violence and some of them died as heroes in the effort. He spoke of two great martyrs who symbolized this 10 per cent. This is the ten per cent that tried "to protect the people." By contrast, "five per cent openly incited violence - even in their pulpits - they led the assassins on, and with pistols." Bill said this left 85 per cent who were "moderates."

Bill told us that "the church is improving; it is now much more advanced, often much more advanced than some of our politicians; it is even occasionally in the vanguard of social problems."

Bill proceeded with this castigation, attacking the present government. He accused it of a "lack of a sense of values or a sense of social responsibility; it spends two-and-a-half-million-dollars to fix up Bolivar Square which could wait 100 years; and it will not spend the one million which is needed for schools to care for the 75,000 children of Bogota who are without schools."

The Governor asked Bill, "Will the agreement between the two parties last?" Bill replied, "I approve of the agreement except that the next executive must be a conservative, as agreed to by President Lleras - and this next president can turn out to be a Right Wing reactionary."

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(I don't recall whether I've commented elsewhere on this extraordinary agreement. The two big parties, the Conservatives and the Liberals which have opposed each other so bitterly for scores of years, including 3 civil wars, and have been killing each other for the past 10 or 12 years in the rural areas, have agreed to alternate on the presidency - to divide exactly evenly the members of the national legislature - to split evenly the members of the cabinet, plus one general - to divide the governors of the provinces - the mayors, etc. This agreement grew from the internal violence and continuing crisis. It is supposed to last for 16 years.)

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As we reached the district "Tunjuelito" Bill commented, "There are practically no conservatives here; it was the liberals who had to flee in fear of their lives and came here; the conservatives didn't come here because they were not being persecuted; the Communists are growing rapidly here, but not as rapidly as in the rural areas."

Bill went on to tell us that the Communists are training 16,000 men for the Communist army in the Department of Cunbinamarca, the very department of the area in which we were visiting. Bill said that the Communists "contracted many villages," confirming a report which had come to us earlier.

The area consisted of a vast mass of one-floor brick structures, many of one room, with an occasional one or two or three room brick house which didn't look so bad. The streets were

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unpaved and Bill pointed out that they and all adjoining land turned into a morass of mud with the rain. The worst feature was the open furrows alongside the streets which served as sewers. Bill said there were practically no schools though we came to a large playground where youngsters of 7 or 8 to 11 or 12 were playing football. The Governor got out and posed for photographs. There was a school teacher in charge. At this playground, Mr. Carde, who was following us in a car and who is the Time Magazine correspondent here - took me aside and said, "This isn't poverty in contrast with Caracas where everything is foul; wait 'till you see Lima; here this is good by comparison." I must admit that the children look healthy and well fed, and the Governor commented on it. Later as we rode back into town, the Governor said he had seen infinitely worse poverty in Karachi, Hong Kong, and many other areas of the world, and that he even thought there were districts in Chicago which could rival what we had seen. I commented that there weren't any districts in Chicago where the sewers were in the street.

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We left the students suddenly to get back into town. We liked them and particularly young Bill Mannetti. Indeed I think they typify the hopeful young vital spirit of these exploding and underdeveloped countries. The Governor later commented that the visit to the "Tunjuelito" area wasn't remotely as interesting or informative as the conversation with the students on the way out.

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Memo #17

March 1, 1960

VISIT TO THE UNIVERSITY OF THE ANDES IN BOGOTA

-by The Governor's Party

My knowledge of the University of the Andes began in New York when at breakfast with Governor Stevenson and me, Adolf Berle urged us to visit the University. Today the assistant rector, Dr. Ramon Zubiria told us that Mr. Berle is head of a Foundation in New York which raises money for the University. Dr. Ramon Zubiria says that the University, founded only eleven years ago by the man who is now rector of the National University at Colombia, the University which gave Governor Stevenson the honorary degree - Mr. Ramon says that the University is the only completely private and non-political and non-denominational university in all South America.

My acquaintance with the University was fostered last night when I visited at length with its rector, Dr. Jaime Samper Ortega, after the President's dinner; Dr. Samper is an engineer. He has only been rector for a year. He refers to himself as the administrator, and he manifestly looks to Mr. Ramon for educational leadership. Mr. Ramon is a cripple who walks with a cane, who gives a limp broken hand for a handshake. He has his Ph.D. in romance languages from Johns Hopkins. His English is excellent. He talks with enthusiasm and fire. Between Dr. Samper and Dr. Ramon, I learned that the University has a faculty of 131. 46% of these are full time, which in itself I understand, is remarkable among

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South American universities. Seventeen are Americans. Today we visited the building dedicated to economics. The acting head of the department is a Professor Hunter from Michigan State, who has been here for eighteen months on a two year loan. The department is not yet accepting graduate students. But it has turned out many research projects and is supervising students writing their theses for their baccalaureate. Within two or three years, Professor Hunter hopes that the department may be in a position to offer the Master's Degree. Research projects cover studies into marketing of agricultural products, plans for economic development, etc. I am sending along by suitcase to Mr. Howe a most important project of this department, a bibliography of economic work dealing with Colombia. What makes this bibliography distinctive, as I understand it, is not only that it is the first such bibliography dealing with such materials - but that the nature of each particular reference is in a paragraph or two.

The University now has about 800 students; 250 or 300 of these are girls, and the number of women is going up all the time.

The tuition is 700 pesos per quarter ($100), or $1,400 per year. Dr. Samper said this is about half the tuition of the private secondary schools. The University has no dormitories and this poses problems because only half of the students live in Bogota. There are five American students.

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Dr. Samper and Dr. Ramon regard the University of the Andes as "the private University for Colombia." As a private university it can do things impossible for the research institutes or the state or federal universities. Already this is having an important effect. Dr. Ramon expects that the effect will spread from Colombia across the continent.

One way in which the University is a private university is that the students are not given any legal rights over its operation. For example: there are no students on the University Council. The rector tells them that every student has the full right at all times to be heard, but that no student has the right to direct the policy of the University. There have been no student strikes with demands on the professors to change the curriculum, to make it easier or to give passing marks to students who are failing. (Dr. Ramon says there was one "strike," by 43 medical students who refused to go to classes for half a day because they were going to be mixed with 20 other students of similar level, when they transferred to the medical school; they felt the other 20 did not have the sound and thorough preparation which they had had; they refrained from going to classes as a demand for higher standards for the 20 - rather than lower!)

Dr. Ramon says that South American students in most South American universities are "passive" - "the professors lecture at them." The students at the University of the Andes are urged to be "active." We visited a few classes. The groups were small

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and the students seemed active and participating. The most interesting place we visited, to Governor Stevenson and me, was the "laboratory" in which a big group of students were studying English. Each one was in a little cubicle with ear-phones. We stood in the "control room" with a couple of teachers. We put on the teachers' ear phones, which can be adjusted to each or any individual student, and we heard the instructor in English, on tapes made by the University, repeat an English phrase - "The furniture in the room is yellow" - or some other such - and then the entire group would repeat the sentence immediately afterward. When I asked how the group would know what the sentence meant, I was told that the preparatory work had been well done. I said to the Governor, "These students are pronouncing more English in this one hour of instruction, with constant pronunciation, a good 40% of the total time period, than you and I had a chance to pronounce French in a couple of months of instruction when we were boys." The teacher told us that this was a very common method of instruction in the United States. She then showed us a sample filmstrip provided by the USIS, which is also used in the teaching of English. The tape that went along with this filmstrip gave to the students the oral instructions to accompany the visual image on the screen. The teacher expressed deep gratitude to the USIS. (I would be interested to know how widely the USIS engages in such distribution.) (Mitch Mitchell (EBF) has reported on this.)

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Dr. Ramon put vividly the relationship between faculty and students. He said, "In Peru and other South American countries, the students have representation on the university council, and a decisive role on the curriculum. But not here. At other Colombian universities, the students have representation on the board of trustees, but not here. We handle the students differently. We are in permanent dialogue with them!"

Dr. Ramon went on to tell us that although the University had no religious affiliation, it was on good terms with the church. It has a chapel and a chaplain. Attendance is voluntary.

Part of the program of great pride is the affiliation with many American universities. This started with a tie-up with the University of Illinois, worked out when George Stoddard was president. After two or two-and-a-half years of engineering training at the University of the Andes (I told the rector that I liked the name of his University - and that with a name like this there should be no height to which the University could not scale!) - the brightest boys are selected for their next two years in the United States. Families are approached to see how much of the cost they can carry. The balance is loaned to the student from a Fund which now totals 2-million pesos. The program was almost wrecked, says Dr. Ramon when the peso was devalued from something like 2.7 per dollar to 8 per dollar - (now 6.75). But they have pulled it through. They are very proud of the progress they have made to date and they claim that the students do remarkably well

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when they return to Colombia. (This program was originated by President Lleras when he was president of the University of the Andes and he referred to it in our interview with him.) He thinks the atmosphere in the United States is "best for boys." He says they go to the United States "from a tense environment" in Colombia. I gather that he deems that the Colombian environment is highly disciplined, strict and catholic and totalitarian. He says, "our boys find tolerance in the United States." They find freedom of discussion among political parties, freedom of religion, and most importantly, they learn "the dignity of work." They find they are rooming in the States with boys who "though they may be Nelson Rockefeller's sons," are working in cafeterias or filling stations. Thus these Colombian engineers who get their preliminary work at the University of the Andes and then two years in the United States, come back to Colombia and aren't afraid of work. Says Dr. Ramon, "We are proud of the fact that they know how to get grease on their hands; we like the United States because it exposes our students to a new culture."

Dr. Ramon thinks that a year in the United States would not be enough. Two years is necessary. He stresses the fact that the students are receiving "a new balance between the humanities and science." (This new balance is receiving stress at M.I.T. and some other U.S. engineering schools.)

I did not get a full list of cooperating United States universities, but among them today are Illinois, Pittsburgh, Texas, Arizona and Kansas.

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A big part of the problem of the University of course is its financing. Dr. Samper at dinner last night talked to me, only half in jest, about his problem of persuading the rich people of Colombia to give their money to philanthropy. He agreed that the rich South Americans resemble the Europeans, who do not traditionally give money to philanthropy, much more than they do North Americans.

We were given a great big bunch of papers including some of the studies in the Department of Economics. One is headed, "Mercadeo Del Arrod En Bogota" and another "Mercaedo Del Arrod Resscecco En Bogota Ce." There are in Spanish and too heavy to send along home by air mail. Another is headed, "La Ensenanca De La Economeia En Colombia." This one is by Professor John M. Hunter and James Anthony Short Ternent.

But I am sending along some of the material we were given. And I urge its perusal, notably the address by Dr. Samper, "The Problems of Education in Colombia", and the article on the "University of the Andes." I want to review this material as I write my article for the Yearbook.

We liked the outdoor class we visited, an English class, with a most attractive English woman as teacher. And the students perched along the wall. Whether the class was outdoors because of shortage of facilities, or because the day was beautiful - we did not determine. Our next class was taught by a young man with his M.A. from the University of Connecticut! The buildings of course are cheap and poorly built; the location is marvelous.

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The building in which the laboratory reading room is located is a former jail!

The enthusiasm of Dr. Samper and Dr. Ramon, and Professor Hildebrand, who showed us around, was contagious. We left with the conviction that the University of the Andes is an important pioneering venture, serving a present need and with a most remarkable future.

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Attachments
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SENATOR MORSE'S "GOOD MONSEIGNEUR" - BOGOTA

Coming back from the trip with the students, the Governor got off for a broadcast at a big modern building which is controlled by the remarkable Monseigneur whose broadcasts cover Colombia and penetrate into some adjoining countries and who is known as "The good Monseigneur". A 50,000 kw station is being built for him. His listening audience is estimated at 500,000. By radio he teaches the illiterate how to read. He gets some one who knows how to read in each village to act as the leader. The group works together under the guidance of the broadcasts. He also puts on programs dealing with agriculture - how to take care of the land, how to get better seeds, et cetera. He started in a little parish church, then added a loud speaker for those who want to listen outside. Not long ago he was chosen "UN Man of the Year". Mr. Hurwitch thinks he is basically anti-clerical. He has received a total of 28 million pesos from the Colombian government, according to Mr. Hurwitch, and seems to have a system of "blackmail" over the government. He even has a weekly newspaper with 75,000 circulation, almost the circulation of Bogota's big daily, El Tiempo. This magazine deals largely with rural questions.

Not long ago a group that opposes clerical influence went to President Lleras and demanded that his subsidy be cut off. The President refused. He told them, "Come and see me, you liberals who are members of my own party, come and see me when you have a proposal which will promise to do the country as much good with the same amount of money".

The Monseigneur's name is Salcezo. He seems to be a good version of Father Coughlin - with enormous power and on the right side. Why Mr. Hurwitch called him anti-clerical, I do not know.

Dictated in Bogota
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Memo #19

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Cat. #1652
Memo #20

March 1, 1960

MEMORANDUM ON BULLFIGHTING

We had the greatest good luck, the two greatest bullfighters in the world appeared in Bogota on our one Sunday - Dominguin and his brother-in-law, Ordonez. I have already reported something about this. But this afternoon Dominguin (Luis Miguel) came by to call on Governor Stevenson and went with him to a reception. He is a very handsome man of 34, alive and friendly, with the sensitive feminine face of a poet or, perhaps, a ballet dancer to whom toreros often are compared. He was here in Bogota at age 14, training to be a big-time bullfighter. He was too young legally to fight in Spain. At age 15, he first fought in Spain. Dominguin started "with small bulls" at age 10. He said he was a very small under-sized boy at 14. Ordonez married his sister and he has trained and developed Ordonez. In Spain the bullfighting season is from March 1st to October 1st. In South America, it is from October 1st to March 1st. Only six countries in South America permit bullfights - Mexico, Guatemala, Panama, Venezuela, Colombia and Peru. He's been here countless times. The bullfighting here is only once a week, on Sunday. He says that he and other bull-fighters - and the banderilleros - are supposed to keep in training during the week but they don't do it very well. He offered Governor Stevenson a cigarette and he refused the cigarette, stating that he had to keep in training! Dominguin says there is a great deal to be said for fighting every day, as he does in Spain during the season, with the exception of an occasional day going from one city to another. It is easier to keep in training. The routine is good discipline. In a soft voice he said that twenty years of bullfighting is enough,

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"but what can I do?" He expressed regret that he hadn't known that John Fell Stevenson was along. He said he would have taken him out and shown him some fighting "with some small cows"! Dominquin is quietly but neatly dressed, with a very loose fitting collar to his white shirt, but elegant neckties. His hair is soft and silky and noticeable, in a Byronic manner, but he does not wear the traditional little tail of hair customarily worn by the toreros, which is a mark of the torero. This he puts on for the ring. He says that people either greatly like bullfighting or greatly dislike it. He always stops in the United States on his visits to Latin America, and will be there in late March.

He suggested that there was not only a great deal of brains required to be a bullfighter - but this was true in any form of human activity - even necessary for the shoemaker. When I asked him why he came out into the ring for some of the fighters, after his own appearance, he said that he thought they were in trouble and was worried about them - more than he ever was about himself. He and Ordonez married sisters and he trained Ordonez. With us was the editor and publisher of El Tiempo, the big paper of Bogota. Dominguin said that the rivalry between them was of course "for the papers". The Governor asked him, "Do you and Ordonez, who are such bitter rivals, travel together?" He glanced at the publisher of El Tiempo and replied, "Not when the newspapers are listening!" He said it with a smile, but he added, "sometimes we are the victims of our own propaganda." By this he meant that sometimes the big rivalry built up in the papers causes one or another of them to take chances that are too great. Yesterday, at the Foreign Minister's lunch, sitting next to the Mayor

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of Bogota, and with Dr. Gonzalez at my left, Secretary-General of the President's Cabinet, both men agreed that Dominguin is indisputably the world's greatest bullfighter. But the crowds often prefer his brother-in-law. (A bigger crowd surrounded Ordonez after the fight and took part in lifting him to their shoulders and carrying him around the ring).

There are many descriptions of the famous Dominguin far better than any I can attempt. For myself, I liked his fighting a lot better than that of Ordonez. Dominguin is true perfection. Watching him, you can't imagine that his blood pressure has gone up a decimal. Particularly spectacular is his trick when he stands against the wall, so there is no escape for him if the bulls swerve towards him, and then brings the bull past him, right next to him. In response to a question from the Governor, he said he had been in the hospital eleven times. This is most dangerous work even for the greatest. And it is easy to see why these men become idols of the women, as do some of our motion picture actors. Mr. Hurwitch said that he once saw Dominguin standing leaning against a terrace smoking a cigarette, with 20 or 25 young girls literally kneeling in a circle around him.

But a big part of the brains called for by Dominguin today is in his role as impresario. He and his brothers are staging the fights. They are the Jack Kramers of the bullfight business. They decide who the bullfighters will be. They underwrite the ring and the expenses and take the profits. Thus last Sunday, the first three bulls were Spanish bulls, and these were the first Spanish bulls seen in a ring in Bogota in 22 years. The Spanish bulls are (said to be) a great deal tougher and fiercer. Next Sunday, Ordonez and Dominguin will have their real "mano a mano", in which they will be the only

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two fighters and each will kill three bulls. This is the big contest for the "propaganda". Dominguin retired as indisputably the world's greatest. Then his brother-in-law did so well that people began to say, including some distinguished critics, that he was greater than Dominguin. Dominguin, eight years older, came out of retirement to stage the great series of "mano a mano". (Soccer is now a much greater sport in Spain than bullfighting, and bullfighting is said to be supported largely by the tourists; I gather that the "mano a mano" series is bringing great new life into the bull ring).

The financial awards to the bullfighters are enormous. Dominguin and Ordonez were said to earn from $15,000 to $25,000 each for their one fight last Sunday. They must be among the highest paid people in the world, in terms of earned income, rivaling or exceeding the greatest salaries and income in TV and American show business. But they net far more. My informant said, "They pay no taxes". Just how this trick is pulled off, I did not determine. Perhaps income taxes in Spain are low, or even non-existent.

P.S. - The first thing Dominguin talked to me about was the fact that he had followed my yacht of last summer, the "Flying Clipper", into Majorca just one day after we had left - and he expressed his deep regret for missing us.

P.P.S.- Both Dominguin and Careras, the great Colombian bullfighter, had dedicated their bulls to Governor Stevenson on the previous Sunday - when the Governor received the great ovation.

P.P.S.- Dominguin has two brothers in his business operation who take the rap when things go wrong. His brothers are roughly comparable to Bing Crosby's or Walt Disney.

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Cat. #1653
Memo #21

March 3, 1960

CALL UPON PRESIDENT ALBERTO LLERAS CAMARGO BY GOVERNOR STEVENSON, SENATOR BENTON AND DR. SMITH - WITH AMBASSADOR MC INTOSH - AT THE PRESIDENT'S OFFICE.

This is President Lleras' second term as president. He succeeded President Lopez when he was only 29. He is a small scholarly looking man with buck teeth. I commented later that in mannerisms and appearance he resembled a professor of Greek at a small New England college. He is a practicing Catholic and prominently on the wall of his office is a great oil painting by Vasquez, one of the best known Colonial painters. It is a large Crucifixion, painted in 1697 - for many years in Europe, but given back to Colombia - I think in 1925 - by Spain, as I recall it - (Dr. Smith will remember). The President and Governor Stevenson are acquainted; they were given honorary degrees together by Columbia University. I'm attaching the brief biography given us by the Embassy! Most certainly President Lleras has had one of the most remarkable political careers of our time - and is one of the most respected political leaders.

The Governor opened the interview by asking the President about disarmament. The Governor asked why South America couldn't take the lead for the world, setting the world a great example on disarmament. This question led to the problem of the border argument between Peru and Ecuador. The President said the two countries were about to agree, and had agreed on the complete border except for 80 kilometers - when suddenly a new river appeared. Peru wanted to finish the negotiations by cleaning up the 80 kilometers. Ecuador wanted to start all over again. The President said that Ecuador now has a conservative president, but the liberals are more numerous among the

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voters, and cannot move on the issue. During periods when Ecuador can move, and could come to an agreement, the internal situation in Peru has kept Peru from agreeing. Thus Ecuador buys jet planes "that are out of the country when they take off!"

Ambassador McIntosh interrupted to say that he did not like our United States Mutual Security Act. He thinks that the Act should deal only with hemisphere defense. I do not precisely remember his point and my notes are not clear here - and this is a penalty for the delay of three days between the meeting and the dictation!

The Governor asked about the problem of violence in the rural areas. The President said that over 150,000 people have been killed since 1948. He described how young people would find their families killed and would take to the jungles, how they would start careers of banditry at age 9 or 10, how they have killed and burned all their lives and have known nothing else. (Later the young student Bill Mannetti, told us of one young man who started at 10, had killed every police officer he saw and by age 21 had killed close to 1100 different individual officers; this story sounds apocryphal but Bill assured us that this young man is well known to the country).

The President said that perhaps only 200 key bandits were identifiable by name, but there are tens of thousands of actual and potential bandits. This led him into a discussion of the problem of land ownership and tenure and settlement. He explained how many had been pushed out of their farms and properties; how they are now afraid to return to their homes; how they and their children cannot understand how and why they have been robbed and desecrated; how funds must be created for agricultural resettlement and development. The

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President explained that restitution is very difficult indeed. The new owners are entrenched. If force is used, this can create new killings. He told us of the tribunals which have been created. They are supposed to work out deals, to come to terms on concrete payments, to figure out whether restitution is wise or unwise, et cetera.

The President wants to plan great enterprises of resettlement in the state owned lands. He thinks that large numbers of refugees in the cities will want to move to such areas. He concedes that this program is "very costly". He says it is being postponed because of the more urgent problems of education, et cetera. Here is where he feels Colombia needs sources of international credit - for agrarian reform. In Colombia, he said, such a program is possible without taking lands from its owner or occupant. There is plenty of available unsettled land owned by the government. Colombia needs money for roads and schools to service this land. He reports that even without such improvements, there is already under way a movement towards the land. Ambassador McIntosh asked whether a team of experts might come here to develop the kind of plan the President advocates.

The President complained that bankers think that the best creditors are manufacturers which can be quickly productive. But he says nothing is more urgent than the land resettlement program. He further pointed out that the Communists "are working hard in rural sections".

The Governor asked whether most of the bandits would resettle on land - or "are they constitutional guerrillas?" The President thinks they will resettle. He assured us further that many who are

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in the city for protection want to go back to the land. (Lauchlin Currie disagreed sharply on this).

The President thinks that the United States made a mistake in our policy in Bolivia. He said we have invested more than $100 million in Bolivia, "a very large sum". Because we didn't want to interfere in local matters, we did not push land reform. He thinks Bolivia should have concentrated on land reform.

The President says that the Communists have used the violence and unsettled conditions in the rural areas - to spread communism. They have told the displaced farmers, "Your family was killed and you lost your lands because you were liberals" (or conservatives, as the case may be). You must fight the land owners who now have your land and who have killed your relatives. We communists shall give you land." Thus the President feels that land is the key to the fight against communism in Colombia.

The President said that Colombia is now enjoying a rate of economic growth of 3.5%. Ambassador McIntosh interrupted to say that this was "quite good". The President flatly contradicted him and said, "No, not at all, this is not a good rate for an underdeveloped country". The President pointed out that with Colombia's rapidly growing population, within five years the country would be adding 150,000 people per year to its unemployed - unless trade and economic growth were sharply stepped up.

When the President said that many of the agricultural workers are nomads, and thus are unstable and hard to handle, the Ambassador asked whether more cattle production would not be a healthy agricultural development. Further, can't more cocoa be raised? Colombia

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is now buying cocoa from Ecuador at the rate of $6 million a year. As to cocoa, the President replied that Ecuador spends the $6 million on Colombia textiles. This question was not pursued. Nor was the question of greater oil production. The President pointed out that last year Colombia went from an oil deficit of 15,000 tons to an export surplus of 15,000 - in only one year.

The Governor stressed the need for greatly improved education. This problem is "tremendous", said the President, and it isn't merely a question of quantity, but also of quality. Colombia desperately needs technical schools. It needs a great change in attitude and in curriculum. The President commented that the feudal life of Colombia is "preserved in education and agriculture". He says that more than 45% of all Colombians are illiterate. The problem of education grows daily. The President says that 1,200,000 Colombians are not in school who belong in school. And those who are in school are studying as they did in the 19th century. There isn't any instruction about agriculture and its development, he says, or about technology.

The President told us there are 1,000 to 1,500 Colombian students now in the United States. He feels that the impact on the Colombian economy would be "tremendous" if this number were greatly stepped up. (Here is an example of the great importance of a scholarship program which I touch upon in my memorandum on our visit to the University of the Andes). Fifteen years ago, says the President, there were no economists in the Colombian government. Now there are many who've been trained in the United States. But most who can now afford such training, "are rich people". (The implications of this last remark seem obvious).

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The President pointed out that 55% of the economy of Colombia is agriculture, yet "our universities last year graduated only 50 or 60 agronomists". He said there was no school in Colombia for animal husbandry. It was the President himself, when he was President of the University of the Andes, who worked out the scholarship program under which 300 engineers have been trained at the University of Illinois. He reports that all of these came back to excellent jobs in Colombia. But he says that now only four or five a year are being trained - because Colombia has no dollars. (I do not know how to reconcile this with the reports we've had from Dr. Ramon at the University of the Andes about the 2,000,000 pesos fund for scholarships for engineers - perhaps President Lleras is low in his figures - or perhaps I got an exaggerated idea of the number of students financed by this loan fund.

* * * * * * * * * * *

Governor Stevenson reported on his long talk with President Lleras at the President's dinner, a day after the foregoing interview- that President Lleras does not think that communism is a major threat to South America. He thinks the Communists know this themselves, that they realize they cannot take over. The President told the Governor that the Communists operate in South America primarily to embarrass and upset the United States - and to discredit the United States throughout the world by showing that the United States cannot even get along constructively and easily with its closest neighbors. The President does not fear communism even in Cuba. He thinks that Castro will be assassinated, and that any successor Cuban communist regime will be short lived.

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The Governor reported that the President's comments were exceedingly frank, and he is one of the most sophisticated and informed political figures in the hemisphere - about Vice-President Nixon whom he feels has learned and developed enormously during his term as vice-president - about Milton Eisenhower who has visited Colombia three times and whom he holds in affectionate regard - but many of his comments about these political leaders and other reflections on American policy are not such as to be entrusted to memorandums.

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Memo #21

Alberto LLERAS Camargo

PRESIDENT

Liberal; born in Bogota on July 3, 1906; left school at 17 to become a journalist; worked as journalist in Argentina and Europe from 1926 to 1929; became editor-in-chief of El Tiempo in 1929; began political career in 1930 when he was appointed Secretary of Liberal Party (1930-33); served as Secretary General of the Presidency in 1934-35 and as Minister of Government from 1935-38 and 1943-45; Ambassador to the United States 1943; Minister of Foreign Relations 1945; Designado (roughly equivalent to Vice President) in 1945; upon resignation of President Lopez in 1945, Lleras became President for the remainder of Lopez's term (1945-46); Secretary General of Pan-American Union 1947-54; President of the University of the Andes 1955-56; elected President of Liberal Party in March 1956; from November 1956 to February 1957 served as a UN observer to investigate Hungarian situation; elected President May 1958, inaugurated August 1958 for term ending in 1962; in addition to duties with El Tiempo, was editor of now defunct El Liberal, founder of the magazine Semana and director of El Espectador (during the time it was called El Independiente).

Speaks English and French; married to former Barta Puga (daughter of an ex-President of Chile); couple has four children.

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Cat. #1654
Memo #22

March 3, 1960

CALL UPON THE FOREIGN MINISTER OF COLOMBIA
BY GOVERNOR STEVENSON, AMBASSADOR MC INTOSH AND
SENATOR BENTON - FOREIGN MINISTER - DR. JULIO CESAR TRUBAY AYALA.

The Foreign Minister is a handsome, articulate, witty man of 46, a little on the fleshy side. He is of Lebanese descent. He has four children. (He spoke of one of his children in the American school, and of a daughter in the German school which he says is "the biggest foreign school here.") He spoke in hesitant English, but good English, and we liked him for it.

The Foreign Minister's office used to be the President's and is very modern, in a modern building, with great glass walls. A large ivory or bone crucifix adorns the wall.

The Minister commented that President Eisenhower had recently proclaimed a "good partnership policy." He suggested that the importance of this policy isn't in its name, but will come in its results. He said that he hoped for "a continuous policy of helping each other." The principal problem, he said, is of course "the social problem." In Colombia, this centers in the big differences between the rich on the one end and the poor peasant on the other. The former live like most North Americans, he said, while the life of the latter is miserable. He spoke of the fact that the increase in population comes much faster than the increase in productivity. Colombia needs more schools, hospitals, highways. To get these, United States help

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is urgently needed. This problem, he added, is general throughout the continent.

The Governor asked, "What are you doing to close the gap?"

First, said the Minister, comes the austerity program. General Rojas spent all the government's money. Imports have had to be reduced by 40%. A Planning Commission, directly dependent on the President, has been set up. (I later met the young man who is the head of this Commission and who is said to be very brilliant. He told me that he was in Harvard in 1946 and later at Oxford. He's an economist.)

The Minister thinks the situation is improving but not fast enough. He said that funds were urgently needed for highways and for public power. The Ambassador commented that in some countries many factories had to shut down for the lack of electric power. This has not yet happened in Colombia, but there is nonetheless a shortage of power.

The Minister wants the repeal of double taxation. We were told that such a change in U.S. policy requires special legislation and that Congressman Hale Boggs has introduced a bill calling for it. (The Ambassador explained that very few American corporations qualified as western hemisphere companies, with tax rates at 38%, instead of 52%.) He feels that the act should be liberalized so that many more companies can qualify. (This relates back to our conversation with the President of Costa Rica, when I mentioned these western hemisphere companies.

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I thought the application of the 38% rate was far more widespread than the Ambassador says it is.)

The Foreign Minister says that to eliminate double taxation we need both U.S. Legislation and inter-American agreements.

The Foreign Minister said he was asked in Congress last year why Colombia didn't open relations with the U.S.S.R. (And the Governor said, "And why not?") The Minister reminded us that in the outbreak of violence in 1948, when General Marshall was attending the Conference here in Bogota, both General Marshall and President Ospina attributed to communism the assassination of the Liberal leader, Jarge Eliecer Gaitan. Colombia then broke relations with the U.S.S.R. During the communist demonstration at that time, Castro was held under arrest in Bogota for two days for the distribution of handbills attacking the United States.

The Minister spoke with appreciation of the fact that the United States is one of the few countries in the world with no import taxes on coffee - nor taxes of any kind on coffee. The Ambassador says that the coffee producing countries should launch an aggressive campaign advocating the repeal of German taxes on coffee, and other country's taxes. In Germany, the taxes make the price so high that coffee is largely the privilege of the rich.

The Governor asked whether money could not be saved from the Colombia budget by cutting back on the armed forces. The Minister replied that the total cost of the armed forces is only 15% of the budget. He does not think that, in view of the present

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troubled conditions existing in Colombia, this can be cut further. He says that Colombia has the smallest percent of its budget devoted to the Army of any country in the hemisphere. Colombia has only two ships, whereas Peru bought a cruiser! The Minister agrees that the costs can be greatly cut in Peru and elsewhere, but not in Colombia.

The Governor asked how long it will take to eliminate violence in Colombia. The Minister said this was a very difficult question to answer beeause the violence was attributable to so many causes - the political causes, the criminal element, et cetera. But he said conditions were much better since President Lleras' inauguration. The Governor asked whether conditions were improving due to better economic conditions - or to better policing. The Minister said that the answer is largely psychological - "more confidence" - but also that economic conditions are improving, - there has been progress in sanitation, highways, schools, and in the resettling of people on deserted farms. The budget last year was $100 million for resettlement and rehabilitation. Although there's only $80 million this year in the Federal budget, there is really a great deal more than this because much more work is being carried forward under the budgets of the various ministers.

Governor Stevenson asked about communism. The Minister replied that its future in Colombia depended on economic conditions. He said that only Czechoslovakia of the communist countries maintained a consulate here. We asked about Cuba. The Minister said that Castro is "abnormal, loco, crazy." The Minister said that

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although Castro still has strong support in Cuba, he has lost respect throughout Latin America. He concedes he has some friends among the workers and students, but "even in these groups he has lost strength." The Minister doesn't like Castro's sugar agreement with the Soviets. This makes other countries ask, "Why shouldn't we too deal with the Soviets?" The Minister said that "behind Cuba is communism," and the problem of communism is now much more difficult in South America because of Cuba. The Minister fears that Cuba can prove to be an important step for under-developed countries toward communism.

The Governor asked how many Moscow trained communists were in the country. The Minister replied that there were perhaps 5,000 communists in Bogota, but only "300 experts." The party is legal but communists cannot vote.

The Minister said that in all Colombia he thought perhaps there were 100,000 communists but most of these are not really declared communists but merely followers of Communism. He commented, "The 100,000 are not lost to communism; many can be redeemed." He told us of a town only one hour away from Bogota which has been communist for 20 years.

Perhaps remembering the man we saw in Washington, the Governor asked about the town. "Is it serious?" With a laugh, the Minister gave the ambiguous reply, "It's a problem when you try to solve it!" The Minister told us how this town has its own authorities, its own schools and taxes. He said, "It's a little republic of 15,000." He added, "the government policy is to contain it, to keep it from spreading." The head of this town is a

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man named Machan. (I think I have the spelling right.) He was trained for three years in Moscow.

Many take trips to Moscow for training, says the Minister. He added with a laugh, "Communism is a main industry here." But he thinks it is not growing. He thinks the policy of containment is working. He thinks it has been "stabilized."

This word caused the Governor to ask, "What about the stability in Venezuela?" The Minister answered, "The Venezuelan government has difficulties." He explained that the communist leaders in Venezuela had been "contained on an island" and only yesterday the Foreign Minister of Venezuela told him, "We are not in any danger; the government is strong." The Minister said he can understand why the Venezuelan Foreign Minister feels compelled to give him such assurance, why he must tell him that this is "the position of the government." But, the Minister added, "I think it's true."

The Minister told us that President Betancourt of Venezuela now has no communists in his government,"though formerly he was friendly to communists."

The Foreign Minister made a most favorable impression on the Governor and me. I am attaching his brief biography given us by the Embassy.

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Cat. #1662
Memo #30

March 2, 1960

BRIEFING SESSION IN AMBASSADOR McINTOSH'S OFFICE
IN BOGOTA - FOR GOVERNOR STEVENSON,
SENATOR BENTON AND PARTY

In the Ambassador's office. Present were Mr. Wells, counselor of the Embassy, Mr. Hurwitch, Labor attache, a political officer, and one or two others.

The Ambassador opened by saying that "the revolution" here in Colombia in 1948, showed the "vicious element underneath." He termed the present year, "our first real year of recovery." He said that Colombia's great need was "more political maturity."

He told us how Colombia had had to take in its belt by restricting its imports by a full 40%. He said that non-essentials were now prohibited. An important result is that the bank now has $200,000,000 in reserves.

The Ambassador spoke from his background of four or five months here in Colombia, plus his service previously as Ambassador to Venezuela and Uruguay. For 25 years before he became Ambassador to Uruguay, he was general manager of a company called "American Steel Export Company," or some such name, apparently a successful export firm. He has traveled widely in South America and throughout the world. I was surprised, however, that he did not call more upon his staff, some of whom seemingly had long experience here. (Throughout our stay we have been in the hands of Mr. Robert Hurwitch, and he has made a very favorable impression on both the Governor and me.)

The Ambassador went on to tell us that "people are killed daily." He said one of the great problems is, "Who will succeed

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President Lleras?" (We have yet to hear anything but praise for the President.)

The Ambassador says that nearly 300,000 people have been killed since 1948, and at minimum, 250,000. (The President later told us, "In excess of 150,000." Other informants, including Mr. Silvert in his memorandum, say "in excess of 100,000.")

These killings started politically, and are described further in other memos I am dictating. The Ambassador says that the army still reports, "Ten liberals and twelve conservatives were killed yesterday." He thinks it's significant that the Army makes this breakdown.

Hundreds of thousands have been dispossessed from their farms. The guerillas descended on the farms and killed the people ruthlessly. Now the Army can't find the murderers. When they do find them, and put them in jail, the jails turn out to be no good and they escape. There is no capital punishment here. (And this is one reason for the high state of excitement throughout Latin America about Carol Chessman.) The government is now building a penal colony on an island, but many skeptics think that the boats will lie off shore and the prisoners may readily escape.

However, the banditry last year is only one-half the year before. The trend is in the right direction. Many of the bandits are young men and who have known no other life.

Although the principal culprit seems to have been the Conservative Party, prominent throughout many of the rural areas, the Ambassador says that each party, in the areas they have dominated,

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confiscated land from owners belonging to the other party. Many of the farmers were frightened and sold their land for a fraction of its value, or deserted it and left. Today there are many squatters, and these are protected by law. If they stay on for 30 days or more, and it may be the owner of the land doesn't even know they are there, they acquire legal rights.

The Ambassador reports that a law has just been signed giving claimants to these lands the right to appeal to newly established quasi judicial courts. These courts are supposed to adjudicate, and to work out terms of payment and settlement.

The farm workers are "Campasinos," the Ambassador said, and are a very vicious violent class. They behead people ruthlessly with their machetes.

When the conservatives started the violence in 1948, with the Army which they controlled using force against the liberals; the latter reacted by forming themselves into guerilla bands. This was the beginning. This too is described in other memos.

Originally there were two issues which split the two parties: the clerical issue on which the conservatives generally lined up with the church, and the question of centralized government, favored by the conservatives. The feeling has been so bitter over the decades that as recently as ten years ago, a prominent liberal party leader said, "No liberal would shake hands with a conservative." Ten years ago, says the Ambassador, the members of the two parties seldom mixed socially.

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The Ambassador reports that the church did nothing to stop the violence. Indeed, the priests often incited the violence. (Colombia is 90% Catholic says the Ambassador, second only to Spain as a Catholic country.)

The Ambassador says that there has been practically no killing in the cities, and this of course is one reason why terrified rural people move to the cities.

When the dictator, General Rojas, came into power, a woman wouldn't walk on the streets in the cities in safety. Thus there was danger and rowdyism. People would band together to walk down the center of the street in the evening. Rojas established order and, according to the Ambassador, if he had quit a year earlier, he might be looked back upon with admiration and respect - instead of being confined to his house under arrest, with all his property confiscated, convicted by the courts of the country.

The Ambassador summarized the problems involved:

1) Eight or nine million of the 13,000,000 are in poverty.
2) Violence still widespread.
3) The country is dependent for export on coffee - for 80% of its total export.
4) Who is to succeed President Lleras?
5) Education - 50% of the people are illiterate.

The Ambassador told us that the wealthy class here doesn't realize its danger. That the wealthy people lack "social consciousness." In Uruguay, where he served previously, he knew a

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man with $1,000,000 a year income, who paid no tax and who wouldn't dream of buying government bonds; and then in El Salvador, he described fifteen families of enormous wealth who could easily have put up $1,000,000 a piece to strengthen and benefit the economy of the country - in a period of crisis when 15 million was urgently needed - but who wouldn't dream of it. In Venezuela he only knew one wealthy philanthropist. Thus, basically, the attitude in Colombia is the same as in other South American countries - but perhaps somewhat better! The Governor commented, "The educated rich don't realize their danger or responsibility."

The per capita income in Colombia is $190. This is above Paraguay and Bolivia, but it's the lowest of the big countries. The Ambassador said it is about in the middle, of all the countries of Latin America.

The Ambassador keeps returning to his theme, "On the surface things now look good, but underneath there is potential dynamite. It's quiet now, but at the heart of the problem is deep and bitter poverty."

I asked the Ambassador for written material from the files of the Embassy dealing with this whole problem of violence. I was astonished to discover that no report has been written. The Ambassador stated, however, that a "violence team is now writing a report." He feels that the violence should be completely curbed in 8 to 12 months. He doesn't explain why it is not curbed.

In discussing industry here, the Ambassador says that the textile industry is very efficient and can compete with any in the

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world except Japan. However, the attitude of the corporation managers is very different from ours. The head of the biggest textile industry won't publish reports about the business even though it is a publicly owned company with public shareholders. Further, he is furious over the new antimonopoly bill. He is not only president of the big textile combine, Coltejar, but he privately owns a separate company which acts as distributor for the company. He is going to resign as president, he threatens, rather than relinquish his distributorship. The Ambassador commented that a vice-president of General Motors might quit his job to become a Cadillac distributor, but that he would never expect to hold his job and distribute Cadillacs at the same time!

Three of the four biggest companies in the country are in textiles. The fourth is a brewery. (Later, Mr. Samper, President of the brewery, told me it would do a $90,000,000 business this year and was the biggest business in Colombia.) The third industry after textiles, and beer, is tobacco.

The Ambassador says that foreign capital is welcome but the business leaders don't want it to compete with local industry. They want it to go into new fields which need technical help. The Ambassador says the government officials understand the nature of the real problems of the country much more sensitively and deeply than do the business leaders. One evidence is the anti-monopoly legislation seeking to break up the control of manufacturing and distribution by a few families. Control in one field has often been by single families.

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The government is definitely not left wing, said the Ambassador, nor is it socialistic - but "moderately liberal." President Lleras, says the Ambassador, is acutely aware of the nature of the problems facing the country. Recently his government proposed a tax on land which is not being fully utilized. This proposal met with "terrific resistance by land owners." The Ambassador thinks the President will fight the proposal through. The young people, sayd the Ambassador, are more aware of the social and economic problems than are their parents. The situation is improving.

An unusual fact about the Colombian budget in contrast to others in Latin America, is that 40% comes from corporate and individual income taxes. Recently there has been a tax reform bill. The Ambassador thinks there is very little corruption in the Colombian government, "No more than in the United States."

The Ambassador says the President is talking at every opportunity "about the social responsibility of the rich." (Governor Stevenson stressed this responsibility in the speech with which he responded to his honorary degree. I am attaching this interesting speech, from which I want to quote in the Yearbook article.)

The Government is now trying to check into tax payments - to make sure it's not being cheated. One technique is to check bank withdrawals at the end of the year - to make sure that people do not withdraw money in order to conceal income from the government.

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The Ambassador continued, "The national concept of unity is the big political fact in Colombia today." As perhaps I've explained elsewhere, the Constitution was amended a couple of years back dividing all elected and appointive officers between the two parties. Thus half the Cabinet members must be conservatives and half liberals. (There are more liberals among the electorate but fewer trained liberals for top jobs, and thus it is now easier for liberals to get such appointments; a couple of the liberal Cabinet Ministers are in their early thirties.) The National Assembly is divided 50-50. So too, the governors and mayors. The Presidency will alternate between the two parties every four years. Thus the two parties are going equally to share the spoils of office. They have called off competition. The grave peril of the country and the widespread violence led them to this truce. (The Ambassador thinks there may be as many as 400,000 more votes in the Liberal Party, but the conservatives have the support of the church and more landed and money support - thus helping to create a balance of power.)

The conservatives are now split into three groups which are fighting bitterly. Much of the bitterness centers around the personalities who lead these three groups. The Lopez (?) group is the biggest. The second has dual leadership but the most important leader is the former president - Ospina, elected president in 1945 only because the Liberal Party had two candidates and the liberal vote was split. A third faction disagrees with the sixteen year truce and wants to go back into direct and immediate competition with the Liberals.

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The Liberal Party has a dissident wing arguing about social problems. Thus the Liberal Party is split into two groups. This wing is lead by Lopez, the son of the former president of the 30's. The Lopez wing flirts with the left and with the Communists, says the Ambassador.

I asked the question whether it was possible to freeze such a situation for sixteen years. The Ambassador ducked the question: he replied that there is no problem right now because of the personal prestige of the president.

Governor Stevenson asked about the armed services. The Ambassador estimates there are 35,000 in the army, but that the army has little political power; 4,000 in the navy; 3,500 in the air force; 25,000 in the national police. Although these figures don't add up to 72,000, the Ambassador estimated that the total is 72,000. He flatly said that the jet plane story told us by Senator Morse, which Senator Morse received from "The Good Monsignor" (described in another memorandum) is false.

The Ambassador explained that the two parties are not split clearly according to class lines, but are vertical parties, much like our own in the States. Although the conservatives are stronger in the rural areas, and among the monied and landed groups, and the liberals are stronger among the urban workers, both parties contain rich and poor, worker and professional men.

Our meeting broke off suddenly for our call upon the Foreign Minister.

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P.S. Later at lunch the Mayor of Bogota, next to whom I sat, Dr. Juan Pablo Llinas, told me that one difference between the liberals and conservatives is that, "The liberals favor free education without any religious influence."

Dictated in Bogota
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RECEPTION COMMITTEE FOR MR. ADLAI STEVENSON

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Cat. #1735
Memo #94

Dictated in Phoenix
Transcribed in New York
4/25/60

To: Governor Stevenson

From: William Benton

You asked me - over the phone in Chicago - what conclusions I'd reached about U.S. policy applied to Latin America. I've been trying to find time ever since to jot them down. I've reached a good many tentative ones. They're the kind to throw on the table for discussion and review - in an effort better to define our interests and fix our objectives. Maybe you'd like it if I pretended to be Secretary of State - and jotted down a few of them - if only to stimulate your own thinking. I'll dictate rapidly and I hope you won't hold me to everything I say. The suggestions of course fall into several categories.

I have not tried to weigh the individual cost or the total costs. I realize well the limitations on the desirability of investing in Latin America, and on our capacity to do so. However, some of the best ideas aren't too costly - and some of the least effective may prove very costly indeed. All ideas must of course be weighed in relation to individual cost and total costs.

<u>In the Economic Area</u> (not listed in order of importance)

1) First and foremost, I think Prebisch is right. I think we should help these countries with their planning. I liked your line, "I am one American who is not afraid of the word 'planning'". Thus I would try to help each country help itself. There are innumerable avenues open to us. Further, I would try to help the

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various countries get together with each other. For the past several years, I've been serving on the so-called U.S. Committee for a United Europe. This Committee has had the blessing of the State Department and the Administration. I think we have need for a U.S. Committee for a United Latin America. The charges against the U.S. - that we've dragged our feet on the projected common market in Latin America - are quite correct. Our failure to help provide leadership has deterred these countries from trying to coalesce. You'll recall that the Foreign Minister of the Argentine told us that some of the seven countries which recently signed the common market agreement - don't know what it's all about. The U.S. should help them find out.

2) Further in the economic field, though the difficulties are great and often seemingly insuperable, we must lend a more sympathetic ear to the Latin American desire for commodity price stabilization. We must help achieve understanding of the fact that we are not ourselves in a position to guarantee such stabilization, but that we are eager to cooperate and provide leadership. Many Latins do not now comprehend the almost insurmountable barriers on many commodities which are items of international trade and on which the U.S. itself is often only a fraction of the market.

3) I of course am wholly opposed to our excise tax on Chilean copper and think this should be repealed. I oppose restrictive legislation against lead, zinc or any other commodity. I favor U.S. policies in all areas that will eliminate such trade barriers between the United States and Latin America - and as rapidly as possible. We must think of these countries as a developing market for our goods - and

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stress this domestically in contrast to the idea they are merely a neighborly opportunity "to do good".

4) To encourage more initiative by American private business in Latin America, I think we should re-examine our tax laws. I'm willing to give our private companies a better break. We should also examine the possibility of helping them finance their exports through longer term credit policies. You know of the German and British policies. You will remember our meeting with the American business community in Medellin. And do you recall the complaint of the St. Regis representative in Sao Paulo? He accused our Department of Commerce of being misinformed. When two vice presidents of his company in the United States, his superior officers, went to consult with the Department of Commerce about Brazil - they were told to pull out of the country!

5) We need to provide more credits. The activities of the Ex-Im and World Banks should doubtless be stepped up. (The U.S. and its policy is inextricably identified with the World Bank.) There are lots of perfectly sound projects, which will pay out, and which need financing. We should have started the Interamerican Development Bank long ago, without waiting for the stoning of Nixon or a crisis in the Near East. This bank, ideally, should follow "soft" policies. I think I put the problem in a nutshell when I said that it should not be run by bankers. It should be run by men like Paul Hoffman.

All the lending agencies need much closer cooperation - so they aren't competing - and can better decide how to finance the development of Latin America's natural resources. Among other things,

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they need to cooperate on surveys such as those demanded by Finance Minister Vargara of Chile (water resources!)

6) I think we should seek more dramatic projects. Perhaps the attack on malaria was one; I don't know. The cure of hoof and mouth disease is such a potential. Tom Taylor says the elimination of this will in itself add 25 percent or 30 percent to the productivity of the cattle. Cleaning up the water - so that the tourists won't be terrified - is a good one. Yes, Montezuma has had his revenge and it's time to put an end to it. An attack on infant mortality should be organized. In some districts of Brazil it's 50% or some such incredible figure.

More dramatic and simple ideas are needed which everyone can understand. Those I've given may not be the best but they will convey the idea. They are more dramatic and will be more widely understood than the steel mill we financed for the Argentine (under Peron!) This mill is owned by the Argentinian government. While we denied the need for Latin American steel mills, we financed them in Chile and the Argentine. I don't believe we were given much credit.

7) The policy of loans should be supplemented by more direct grants - or perhaps matching grants. I want to get more information on how law 480 works, on how it might work, on whether it should be expanded or amended.

8) Herter is quite right in his speech of this week about land reform. He's belated but he's right - even though it took Castro to wrench the statement out of us. You will recall [redacted] (b)(1) (b)(3) [redacted] land reform was the single most critical problem in Latin America. I'm not sure how U.S. policy may fit into this area. Of

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course credits in some countries would speed up land distribution. This Herter indicated. And Beltran in Peru wanted great highways over the Andes so that the Indians will move into the new land. Highways and schools for the new lands will undoubtedly speed up their opening. I'm wondering how much some of these countries, such as Peru and Chile (you will remember how very different President Alessandri's interpretation of land reform was from the interpretations we received from Mr. Santa Cruz and from our agricultural expert in the embassy) - I'm wondering whether the possibility of opening up the government lands is causing some of the governments to fail to face up to much needed legislation applied to lands now in the big estates and already available for cultivation. (You'll remember our friend, Professor Giesecke and his prescription at Cuzco!)

9) What we can do to assist these countries on their tax laws - is beyond me - but the subject should be examined. Among other objections to the avoidances of taxes by the rich throughout most of Latin America is the psychological kick-back in the U.S. (The exchange of experts in government administration - the work of men like Herbert Emmerich through the UN - the training of better economists for Latin American governments, as reported to us in Colombia and elsewhere - all such steps should help towards the urgently needed government and tax reform.)

10) There's a whole package of further miscellaneous ideas--improved agriculture, the efforts to decentralize and cut down of the slums, the cure of inflation, greater incentives for savings, the return of foreign balances kept abroad by the rich, the need for better government financing (Beltran), the need for lower interest

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rates, etc., etc. The CIO - AF of L should receive more encouragement and help in their efforts to bolster the free labor unions.

In the Political Area

1) At the political level, I think you are right when you suggest taking the OAS out of Washington. Perhaps Senator Aiken is right on the Panama Canal.

2) We must do what we can "to consult" - so that we shall be less exposed to the kind of charges leveled against us by Mr. Alfredo Vitolo, the talented Minister of the Interior in the Argentine. We must foster the policy of cooperation identified with F.D.R.

3) We can appoint better Ambassadors. We need more men like the remarkable Mr. Patterson in the Argentine whom you met only at the briefing session. (I urge you to read my memo on my conversation with him.)

We can bring our Ambassadors together into regional meetings so that Ambassador Hill, in discussing a meeting where Cuba was argued about and on which there was violent disagreement between him and Ambassador Bonsal - won't be talking about a meeting more than a year previously. There is a big chance greatly to improve communication among our Embassies in these countries. Many of the problems they face are common ones, and the experience of each is not sufficiently transmitted to the others.

4) One of the biggest political areas of all is your favorite subject of disarmament. You have this well in mind and I won't elaborate on the Peru-Ecuador dispute, etc. My memos are full of it. Might a disarmament conference help? Can we help Alessandri with his

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publicity? Might a disarmament program be stimulated if it were tied up with education. Might the money saved on armaments be invested in education - with assistance from the U.S.? I agree that this is merely a propaganda twist. But there isn't a country that we visited which couldn't productively use its entire military budget for the training of teachers, the building of schools, et cetera. Such a twist might put the so-called "military cliques" on the defensive.

5) What was there in Roosevelt's "good neighbor policy" to match the name itself, the Roosevelt smile and charm - and his visits to Latin America? These countries suffer from a sense of mistreatment and abuse. They feel they've been neglected and they have been. Roosevelt flattered them, as your trip has done. They need to be flattered - subtly if possible - but flattered nentheless. President Lleras' present visit is a wonderful example of how to flatter them - his speech to the Congress, for example. More such ideas are needed. (We should encourage our universities to give honorary degrees to distinguished Latin Americans - on a greater scale.)

6) At the psychological level, we need some kind of dramatic act to show that we do not like dictators. This may be tough to develop, because we must be careful to maintain our policy of non-intervention. But if it were legally possible to kick Jimenez out of the United States - I suspect this one act would do us more good than another hundred million dollars in capital for the Inter-American Bank. At minimum, can't we make it clear we don't like to have him here in the U.S.? Most certainly we should take a stand against dictators through our representatives in OAS. Indeed, it was

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suggested to us that OAS should be used to protest and investigate Castro's alleged communism (and some of his acts of dictatorship?).

7) We should have more of a program to take care of the patriots who have to go into exile when a dictatorship takes over. Do you remember the story told us by Foreign Minister Arcaya of Venezuela? He sat for 60 days - wasn't it?- in Panama trying to get a visa into the United States. Such a program would cost very little.

8) We should listen sympathetically when Betancourt's daughter wants a tiny sum for her proposed sociological study in Venezuela. You will recall she wanted to study the impact of the American community on Venezuelans, and vice versa. There is no philanthropic foundation in Venezuela to provide such money. Our big foundations are very sensitive today about their public relations and their standing with the Congress; a word from the President or the Secretary of State and some of them would develop Latin American programs on a bigger scale. They might even be effective in teaching the rich Latin Americans to begin private giving to philanthropy. (That law in the Argentine which compels everybody to leave four-fifths of an estate to the children - should be repealed!)

<u>The USIS, exchanges of students and others, and our propaganda policy.</u>

1) The USIS needs better leadership, bigger budgets and more status. Too much of its policy is geared to our own Congress - and not enough to Latin America. Seemingly its Spanish and Portuguese broadcasts were interrupted for several years. This was an unhappy mistake. They have recently been reinstated on a limited scale. They should be greatly stepped up and improved. You will recall our

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provocative visit with Mr. Grisolgo Larralde, leader of the People's Radical Party, the leading opposition party in the Argentine. I'm attaching a copy of this interview, to remind you, with a few paragraphs marked. Mr. Larralde wants an organized service to the Argentinian papers, to its labor leaders and others, about communism and its activities; he wants the materials which he read during his visit to the United States - he wants these translated and distributed in the Argentine so that people will learn better that there are two sides to communism. He is right and this need applies everywhere in Latin America.

2) The USIA should be re-integrated into the State Department, from which it never should have been separated. (Dulles was personally and wholly responsible for this blunder.) Its head should be an Undersecretary of State. Aside from doing a much better job of general short term propaganda, it can greatly step up the exchanges of people and other long range programs.

3) Important for the long range is better teaching of English. Mr. Bennett, our USIA representative in Quito, has ten different English courses, from Great Britain and the United States, and not one is sufficiently simple and elementary for use in the Ecuadorian elementary schools. Last year he worked with the Minister of Education in Quito to make the teaching of English compulsory - and now he's embarrassed because he doesn't have the proper materials. They have never been developed. This of course is ridiculous.

The head of our Exchange Program in Lima complains that the brightest young men at the University of San Marco can't get into our colleges and universities, even when she can get scholarships for

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them, because they can't pass the English examinations. Thus the students come to the United States from the private schools and from the rich homes, where they have had the English training. This is unfortunate. The better teaching of English at the higher educational levels is of top importance.

4) Cheap books are urgently needed, and particularly textbooks. The translation program should be very greatly accelerated. Mr. Bennett complained that American textbooks in Ecuador cost $4.50 to $15. He has spent most of his life as a printer. He says they could be printed in Mexico City or Buenos Aires - and sold in quantity at 60 cents. The book publishing industry, if given greater leadership by the State Department or USIA, and if it were told that this is a matter of high American policy, could contribute much to working towards such objectives.

5) Similar opportunities are available in the field of motion pictures where the UNESCO Convention, permitting importation of educational and classroom films without duty, should be approved - and where the distribution of such films - and of film strips and TV programs - should be greatly encouraged and expanded. (The USIA has virtually no Britannica Films in its libraries and there isn't a White or Baxter physics or chemistry course in all Latin America.)

6) We should ask young people to go and come between the United States and Latin America - on a far greater scale. All too many of the Latin young are frustrated by lack of educational and economic opportunity; they seek an association in dignity - with each other and with us. Why shouldn't the President ask 100,000 American families to take a Latin student into their homes for a year?

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The students should speak reasonable English and should be reasonably screened. This would be a great new channel of intercourse and understanding. And it wouldn't cost very much.

Yes, we should even bring their beauty queens to the United States as well as their valedictorians. Your only rival at the bull fight in Bogota was the current beauty queen - who sat nearer to me than you did!

7) I don't know how to develop more interest in Latin America on the part of our press. This is most desirable. How do we get more American newspapers to send representatives to Latin America? If the men are there, they will write the stories!

Education and the Universities

1) A great deal can be done with government leadership to encourage the interests of our private philanthropies in Latin American education. We learned this from Jim Perkins and his companions. If a Secretary of State had ever asked our great foundations to develop a sound and constructive elementary course to teach English - I'm sure this would have been done. Similarly if a Secretary of State held a meeting about the teaching of Spanish in the United States - and Portuguese, in view of the fact that over 50 percent of the people of South America speak Portuguese - I'm sure this would greatly stimulate interest. Spanish is already compulsory in the Miami schools. Even if such a meeting did not greatly expand immediate interest in these two languages, and in their literatures, such a meeting would be greatly appreciated by our neighbors to the South.

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2) One of the greatest opportunities and needs is to build up the Latin American universities. One excellent illustration of how to do this is furnished by the project at the Catholic University in Santiago under the auspices of the Economics Department of the University of Chicago. Mr. Patterson in Buenos Aires told me this is now the best Economics Department in all Latin America. (The importance of economics departments was stressed to us in Mexico when we were told that the Department of Economics at the University of Mexico is dominated by Marxist professors - and that the Marxist-trained students infiltrate from the University into all governmental departments and big business.) From the Catholic University eight or ten young men are now in training at the University of Chicago, taking their PhD's, and committed to serve on the economics faculty for four or five years on their return to Santiago. Four Chicago professors, I think it is, are in residence there. Mr. Patterson is now examining similar opportunities in the field of Business Administration and five other fields at the University of Buenos Aires. Ted Schultz is working with him on the Santiago project and on key agricultural problems. Patterson has a major project in Business Administration worked out with Columbia; and one in Agriculture with the University of Iowa. He's using funds available from Public Law 480. Such activity should be greatly expanded.

Another example is the University of the Andes, said by its vice-rector to be the only non-sectarian private university in South America. (No students on its Council.) I think my memo on our visit to this promising institution shows that Adolf Berle is quite right

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in pushing the Foundation in New York designed to help finance it. Such a university, if financed, could help raise standards for the entire continent.

If the U.S. can help improve the Latin American universities in the next ten years, it should be worth a great deal of money to us in the following 50 years. I don't see how these countries can build sound democratic processes - or technological societies - unless they greatly improve their universities. In Brazil, the executive in the Ministry of Education responsible for Brazil's seven engineering schools - tells me he can not now find enough students in Brazil, from the secondary schools, to qualify for engineering training - to keep up with Brazil's expanding economy - much less to give it leadership.

We should tackle the universities both at the private level, through our foundations and philathropists, and at the public level through our programs of assistance. I happen to think this is the easiest of all projects - and perhaps the most important over the long pull proportionate to the money involved. For the price of the steel mill in Chile, every university in Latin America could have been given a shot of adrenalin.

3) Through the Latin universities, we should seek to build up scholarship about the United States. We should also encourage the development of scholarly interest in Latin America by our own universities. We need more groups at our own great universities dedicated to Latin American archaeology, literature, history, et cetera.

4) Although the universities are perhaps the best example, and the easiest to grab hold of, we should assist the more backward

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of the Latin American countries in their attack on illiteracy. Torres-Bodet's eleven year program is an example of what is needed everywhere.

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Adlai, I've dictated the foregoing hoping this may stimulate you and that a carbon of it may stimulate me. It's not all inclusive! I shall think of many variants and twists as I write my article for the Yearbook. Your question merely made me decide I might as well begin now.

I hope the foregoing may provide you with some helpful and stimulating ideas. I'm working on a slow deadline from EB and you're working on a fast one from Look. I shall indeed appreciate any comments or criticisms. Won't you give me your views when I stop over on the 30th? - then if not before? Of course my own closing date on the Yearbook article isn't until July 1 - with publication for next March! - when we shall have a new President! - and this great gap poses quite a problem in itself. If you decide to dedicate your story in Look to expounding ideas of the kind I've covered in the foregoing, I would like to quote you and attribute the ideas to you.

I know that if I read all the memorandums again, which I expect to do in the next two weeks, I would develop additional ideas - and many additional arguments. But because you asked your question by telephone in Chicago, I thought I would send through this very hasty memorandum.

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Cat. #1698
Memo #64

March 21, 1960

To: Mr. John Howe

From: William Benton

Further on "The Voice of South America" - Mr. Patterson points out, that of course the Voice of South America is the voice of the world; I myself nailed this down in a previous memo. But he points out that the voice is articulate because of communications. The Indian who can't read knows someone who can and this man in turn has read a copy of Life magazine or seen a Hollywood motion picture. "The Good Monseigneur" of Bogota, about whom I wrote quite a memo, is truly on the frontier - and so too for that matter is the Benton Foundation!

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When you see Mr. Patterson talk to him further about his general basic approach to the fundamental problem involved throughout the entire continent. Using terms very loosely, which is what I'll have to do in this article, he speaks of the United States as being somewhat right of center. I've put it well to the right. He speaks of Latin America as being somewhat left of center. This again varies from country to country. He refers to the pressure of the masses of the people on their political leaders. This reminds me of Kubitschek's remark that he's in a hurry - that he has no time to wait - because the infant mortality rate in some areas of Brazil is 30, 40 and 50 percent. The pressure for haste, generated by the masses, gives the communists their opportunity to exploit the fundamental differences and attitudes between United States people and their

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government and the peoples of these countries and their political leadership.

I think all through this article should run my comments on communism and its significance - whether I'm discussing the universities or agricultural land reform - the rule of the military or any other subject. The sub motif of Latin America is the communist threat. Is the phrase "leitmotif?" Here's a good phrase. It's always there even when you don't recognize the tune. There isn't a conversation that we're having on these visits that doesn't one time or another come back to Castro or communism.

A most interesting point made by Mr. Patterson is the skill of the communists in recognizing immediately the threat to them of a constructive American policy such as those applied to the universities which I'm going to cover in a later memorandum.

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Cat. #1697
Memo #63

March 21, 1950

To: Mr. John Howe

From: William Benton

I'm going to dictate shortly quite a memo of off the cuff impressions of the South American universities and their predicament. I'm very eager to get the full report from Ken Holland on the Santiago meeting, and as soon as possible. When will they have it ready? Please send a duplicate of it to Mr. Albion Patterson in our embassy in Buenos Aires. I hope Ken will give me any confidential background memo as well as his official report. I've decided I ought to give a big section to the universities in the forthcoming article. The material is not only very dramatic but of enormous long range importance.

John, one reason for doing a big job on the universities is that something can really be done about them. The issue is concrete, can be grabbed, and the price is relatively insignificant. At a tiny fraction of the cost of the pipeline for natural gas, just installed here in the Argentine - a terrific beginning can be made on the rehabilitation of some of the universities which have been raped and wrecked - and the sound and constructive development of the others. Will you please write Ted Schultz and tell him of my interest here and of my talks with Mr. Patterson and tell him how eager I am to have any reports or records or comments he has on the great experiment on which he's cooperating with the Catholic University in Santiago? You'll get more of a clue on this from another memo I shall dictate shortly.

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A scholar named Phil Glick in Washington is doing a major - quick study for OAF on education in Latin America. Mr. Patterson is going to get me a copy. Here's how I'll have to get the real material. I'm not going to be able to pick any of it up in the field. The meetings here are farces. I've got to get the material from those who've applied themselves to seeking it. Ted Schultz is doing a book right now on Latin America. Mr. Patterson says he has a couple of very good new ideas. This book sounds marvelous. It's about the economics of development. When you write Ted tell him about the article I'm going to write and tell him I would like to publicize some of his material - that the article isn't to come out until next March - and ask him to send along to us anything that will be helpful or could help to guide us.

Mr. Patterson says that one of the important points in the book, and it's like Ted Schultz to come up with something like this, is that the money put into the training of people down here is more productive judged by hard cold economic reality - than any other money that can be invested in any other way. This doesn't surprise me one damn bit and I would have made this statement myself anyway, without any research or scholarly background. Indeed I think I've said it many times in many speeches. But coming from Ted Schultz, with his background and scholarly reputation this has great impact. Ted Schultz speaks of "improving the quality of people and raising the level of the productive arts"! This is better rhetoric than I identify with Ted. It's a good phrase and I'm glad to take it right over.

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John, I've chatted with Mr. Patterson about Ambassador Beaulac's objection to my projected title and we've decided that the Ambassador is being too literal. Let's stick to "The Voice of Latin America." And my first paragraph should explain it, as I suggested in the memo last night. This Voice fundamentally is the masses of the people struggling for the new freedoms made possible by science and technology - in agriculture, industrialization, etc. And of course the Voice is often indistinguishable because it becomes a loud roar; it speaks with different tongues in each country and with many tongues within a country; I'll build up the paragraph and make the Ambassador's point about the fact that there is indeed no such cultural entity as Latin America, no political or sociological entity such as South America.

Mr. Patterson is going to be in New York before I get back and I have urged him to have a visit with you. Indeed I suggest you try to get him for an evening. He is wonderfully stimulating. Note my letters to Perkins and Ken Holland.

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Cat. #1681
Memo #46
March 16, 1960

MEMORANDUM ON SOUTH AMERICAN UNIVERSITIES

One of the most famous University presidents in South America is Gomez Mias of the University of Chile. In Lima and Cuzco we ran into Professor Birkhardt, head of the Council of Learned Societies, President Murphy of the University of Kansas, and James Perkins, Vice President of the Carnegie Corporation. All were returning from the recent meeting in Santiago, sponsored by the Carnegie Corporation, and by Ken Holland's group. All urged us to visit at length with President Gomez Mias. This proved to be impossible. But I urge Mr. Howe to telephone Ken Holland's secretary and to secure the report that his organization is writing on the Santiago meeting. Mr. Perkins told the Governor and me that a careful agenda was followed for a week. President Murphy thinks that the whole subject of the improvement of South American universities is now definitely "on the table" for review by our great Foundations - growing out of this meeting. Such subjects were frankly discussed as the key and critical role of students, which is often very deleterious to university standards; the universal use of part time professors who do not live up to their responsibilities; the blight of politics which adversely affects many of the universities; et cetera.

I have learned practically nothing about these subjects, and contrary to my hopes and expectations, we've largely ignored the universities. When we have visited them, the affairs they have arranged have not been informative. This was true at the University of Mexico where we met the key deans and faculty members at a champagne-hors d'oeuvre affair one afternoon - where the Governor made a graceful little speech-

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but from which we received no benefits except the views of the extraordinary new university buildings. (The campus has a great giant statue of President Aleman who fostered and built the university, and some $30,000,000 or more was poured into the University during his regime when a plant was built which probably couldn't be equalled in the United States for $100,000,000.) Similarly, we attended an affair at the University at Quito - on which I've reported - and now most recently the Governor and I sat on either side of President Gomez Mias at the University of Chile, at a small table at the end of a great horseshoe with two tables stretching down to the left and the right of us, and with people standing behind these tables - I suppose 100 or 150 representatives of the University faculty. For an hour and a half we answered questions, 90 or 95% the Governor - but I joined in occasionally. One of the professors, also a senator, gave us the standard complaint that we had spent $40,000,000,000 in Europe on the Marshall Plan - $40 billion, yes, though I corrected him and told him it wasn't more than a third of this - while we neglected South America. But again, we learned nothing. And in this case we didn't even see the University!

Dictated in Chile
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Cat. #1643
Memo #11

February 23, 1960

"BRIEFING" BY AMBASSADOR WHITING WILLAUER OF COSTA RICA

Present: Governor Stevenson and Senator Benton,
also at intervals William Blair,
Dr. Carleton Smith and John Fell Stevenson

The Ambassador explained to us that Costa Rica is looked up to by the hemisphere out of all proportion to its size. The Ambassador is very concerned about the Cuban situation. He says that Costa Rica is being harmed by developments in Cuba. He suggests that Costa Rica can be an ideal "complainant" on Cuba before the OAS or the UN.

The Ambassador explained that the Caribbean is our Mediterranean. He speaks of "three great similar areas, the enclosed sea areas, the Caribbean, the Mediterranean and the China Sea of South East Asia." He emphasizes that the problem today isn't just Cuba. He asks, "What is Cuba doing to the Caribbean?" He states flatly that it is the beachhead of international communism. He cites the grave effect:

1) The field of public information was one of Castro's first fronts for attack. Castro went after the AP and the UP, "the sources for public information in this area." He created his own press service. This "shows a wide conspiratorial objective." This press service is called "Prensa Latina". Already this has had a big effect. The service secured "A good scoop on the Paraguayan invasion." The Ambassador explained that "of course they were on the inside." In response to a question about the Cubans' activities in broadcasting, the Ambassador said that a

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news story had announced a forthcoming construction of a big transmitter.

2) In Cuba, the Communists "now have an area where they can operate with no restraint." This is the first time in the Western Hemisphere.

3) Cuba gives them a bastion from which to operate for infiltration of the Labor movement throughout South America. They will junk Tolledano. They will start a "third force, inspired from Cuba." They have cancelled their Cuban labor affiliation with Crete. Forthcoming is a key labor meeting in El Salvador. Here in Costa Rica the Communists dominated the banana union and merged with one not so suspect. The Ambassador expects this merged union to send its representatives to El Salvador and to drift into the Communist orbit.

4) The Communists have acquired "Cuba's diplomatic network." Cuba has Ambassadors all through Latin America whereas the U.S.S.R. has only had three or four. Castro is replacing all Cuban ambassadors with his Communist representatives. (El Salvador has declared the new ambassador persona non grata.) Through this diplomatic Cuban network, the Communists now will have much greater freedom in espionage, in the use of the pouch (to smuggle funds for example), in the use of radio, etc.

5) Through Cuba, the Communists will drum home "the theme song of agrarian reform" (which worked in China, where

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Ambassador Willauer served for twelve years in our foreign economic administration and later as president of General Chennault's airline). Many countries need agrarian reform including Costa Rica. Cuban reform is a great torch." Of course the Ambassador thinks it is a "phony" because it is so poorly conceived. The Ambassador thinks that the Cuban peasant will remain a serf of the state and will not indeed become his own landlord. But in "afrarian reform", the Communists, through the Cuban effort, have their hands on a real problem, a problem which needs solving, and one which they can brilliantly exploit.

6) In Cuba there is a base for revolutionary military expeditions. (I have not heard much about these.) The Ambassador says that they have been wandering all over the Caribbean. These are groups of 50 to 100 armed men who have been landing on foreign shores with revolutionary intent. The Ambassador thinks that their "apparent clumsiness is a part of a deliberate design." He says there have been eight such expeditions in Costa Rica and six in Honduras, all aimed at Nicaraugua. In all these expeditions, a pattern emerges: a) the arms have been contributed by Cuba; b) the groups have been trained in Cuba; c) no more than five or ten per cent of the men have been Cubans. The men in these forces think that they are part of "an elaborate plan". They expect to

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join an uprising in the countries which they invade. They expect parachuters' supplies, et cetera. But in no case has any such support developed.

The Ambassador asked, "Can this be a way to liquidate non-Communist revolutionaries?" Many of the men in these groups could be embarrassing to the Communists. He asks, "Is this a way to kill them off?" The Ambassador points out that the Communists "don't really want to liquidate dictators until they are themselves ready to take over." These little expeditions "cause enormous chaos." They keep American and other foreign firms from wantint to make investments. One objective of these little expeditionary groups, says the Ambassador, is to cause depressions.

Now I have not read much about these groups in the U.S. papers. I was surprised at the foregoing report and at the great importance the Ambassador attached to them. They are indeed a most dramatic story.

Now the key problem for American policy is, what do we do about Cuba? I have previously sent through a memorandum on Ambassador Hill's ideas, applied to Castro and Cuba. Here are Ambassador Willauer's. These were the two men, both political appointees, who took the minority viewpoint in the Ambassador's meeting of the 20 Ambassadors from the Latin American Republics. (I learned from Ambassador Willauer that this meeting to which Ambassador Hill attached so much importance - took place back in March of 1959). Ambassador

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Willauer's ideas have important similarities to Ambassador Hill's but are not exact parallels:

1) Through the OAS, we should denounce dictatorships and urge "an aggressive program of human rights." We should say to the twenty Latin American Republics, "We will agree to anything that you agree to in the field of human rights." (The Ambassador points out that they will not be able to agree.) This proposal puts us on the offensive. It lays the ground work for our attack on Communism. It "gives us a suitable public posture."

2) We should then present the evidence - (let Costa Rica present it!) - on the Communist infiltration in Cuba. We should call for action under the Caracas resolution of 1954.

A part of our dilemma, says Ambassador Willauer, is that we haven't known what to do about it. Incidentally, President Figueres complimented Ambassador Willauer and said that, "Your Ambassador from the beginning recognized the Communist influence in the Castro movement."

3) OAS may say, "So what?" We must then re-examine our policy in relationship to the OAS. (This opened up serious questions which we did not pursue.)

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Ambassador Willauer had prepared himself carefully for the meeting and had detailed notes. He spoke with emotion and even with passion. He referred frequently to his background of 12 years in China. Referring to this background, he speaks of himself as an expert on Communism. Indeed this latter is his constant theme. He says that C. D. Jackson and Roy Larsen, his close friends, prevailed on him to become Ambassador to Honduras because it adjoined Guatemala - and because they wanted him, as an expert on Communism, to be in a neighboring state where he could examine and report on the Communist infiltration into Guatemala. I might also say that he sees a Communist behind every lamp-post - but seemingly he has been quite right, to the best of my present knowledge, on the Castro issue - and I do not like to level such a haphazard charge. Like Ambassador Hill, he is bitter in his criticism of Ambassador Bonsal. He holds Bonsal partly responsible for "our failures in Washington" to understand the depth and nature of the Communist threat in Cuba.

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Cat. #1644
Memo #12

PRESENTATION BY COLONEL HOLDEN OF THE EMBASSY IN COSTA RICA - RE PANAMA CANAL

Introduced by Ambassador Willauer to Governor Stevenson, accompanied by Senator Benton

Colonel Holden represented the War Department in negotiating the most recent new agreement with Panama. He spent several years in the Canal Zone. The Ambassador introduced him to us to prepare us for our forthcoming visit to Panama. The Colonel impressed me as an able, sincere and informed officer.

Colonel Holden explained that the original treaty with Panama was in 1903. President Theodore Roosevelt's administration conceived the idea of breaking Panama from Colombia. There had been no separatist movement. But we had not been able to work out a successful treaty with Colombia for the building of the Panama Canal. So we maneuvered and schemed and broke off the Republic of Panama, and then negotiated our treaty with the new republic. This treaty was in perpetuity. The key phrase in it was that the United States was to have full and complete control over the Canal Zone "as if we were sovereign." The Panamanian Foreign Minister who negotiated this treaty, who stated later, "We tried to give you everything" - and who later boasted about putting in the phrase "in perpetuity" - was named Bunau-Varilla. According to the Colonel, he is now regarded in Panama "almost as a traitor."

The second treaty was in 1936. In this we made concessions. In the Treaty of 1903, we had guaranteed the independence of Panama. This was repealed in 1936. We raised from $250,000 annually to

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$430,000our payment - for an "annuity." The word "annuity" is important - in contrast to "rent" or any other word. This increase was exactly in ratio to gold's appreciation in terms of dollars in the early '30s - when Roosevelt devalued the dollar. We also agreed in the 1936 treaty to a single wage scale for Panamanians and Americans.

Our third and most recent renegotiation was in 1955. This is called the Ramon-Eisenhower Treaty. Ramon was a former head of the Panamanian Police, who became president of Panama, and was president at the time the treaty was negotiated. He was later assassinated. This treaty raised the annuity to $1,930,000. We again agreed to one wage scale only. (I'm not clear upon what is the difference on this point between the '36 and '55 treaties.) We gave Panama the right to levy income taxes on their citizens who were earning money in the Canal Zone.

The Colonel emphasized that the tolls on traffic through the Canal have never changed. These were not set in 1914 when the Canal opened. There was a long period during which they were figured out. The Colonel is vague as to whether they were finally crystalized in the '20s, or perhaps not until the early '30s. At any rate, they have never changed. He says they could go up 300 percent or 350 percent, and it would still be cheaper for the ships to go through the Canal than to go around the Cape. The Colonel manifestly deems that the danger of international control, through OAS, or otherwise, is in part the threat of an increase of the tolls. He told us that two-thirds of all the traffic going through the Canal was shipments from United States ports or shipments to United States ports - thus that

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any increase in rates would fall directly on U.S. manufacturers and consumers through the extent of two-thirds of the total. (When we reached the Canal Zone, we checked into this figure. The true figure is about 40 percent.)

The Colonel called our attention to a study in 1942, I think it was, called the "Stanford Study." This projects the need for the enlargement of the Canal. This study considered alternative routes but ended with the recommendation for the same routes. The study concluded that two billion yards need to be displaced, in order to enlarge the Canal to the requisite size, and this would cost $2 billion.

(When we reached the Canal Zone, we discovered that the study by Stanford University, projecting traffic, showed a forecast for 1970 which is now being exceeded in 1960. Furthermore, there are some 300 ships which have now been built which are too big for the Canal. Yet Colonel Macalaney, to whom we talked in Panama, says that the Canal would be wholly adequate for many years to come except during the periods when it is being repaired and cleaned up - and also except for the ships that are too big, most of which were not designed for American traffic.)

I am not clear about the need for a newer and bigger canal, or how soon, and this seems to me a most important point applied to any suggestions for internationalizing the Canal - or any discussion of the future of this great structure.

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In the most recent treaty negotiations, Panama asked for its flag over the Canal. In 1955 this was not a publicized issue. The request was rejected because the United States is "as if it were sovereign." The fear was that if the flag was granted, another and further Panamanian request would follow and would have to be granted - for example, its request for all postal rights for the Canal Zone, or for the full authority over the road strips, or for the use of its currency in the Canal Zone. The ultimate request or demand would be the expropriation of the Canal.

(When we reached Panama, we were told the Egyptians have a big legation - and are urging just that.)

The Colonel pointed out that there is a growing barrier between the people living in the Canal Zone and those of Panama. He said, "People don't leave the Zone." He said there is, "A strong dislike both ways." The one idea he advanced to counteract this was his question, "Can we integrate the schools?" He commented, "The seat of the revolutionary trouble has always been the University."

He said one small mark of advance is that the signs in the Canal Zone are now in both languages.

There are some 10,000 troups in the Canal Zone and 8,000 U.S. employees. The employees are much more important because practically all of them are, in salary and status, of the officer class. Some of them have been there for three generations. These are the ones with the big incomes and the ones who are the most isolated. Among them are one hundred United States pilots who earn from $16 - 22,000 a year, according to Mrs. Harrington, wife of the American Ambassador,

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whom I asked about the pilots later in Panama. This is a sample. Many of these employees, such as the pilots, are classified as "security employees," and this automatically eliminates Panamanians from potential employment.

Colonel Holden described three major current problems:

1. The Panamanians now ask reaffirmation of the fact they are "titular sovereigns." They want us to admit they still own the land. Colonel Holden reports that in 1908, President Taft reinterpreted the fact that we had "all rights as if we were sovereign."

2. The second problem relates to labor and the rates of pay. Many Panamanians thought that our lasttreaty meant that all Panamanians were to receive American wages. But the truth is the agreement meant that only those in any classification in which 51% of the employees were Americans - in this particular classification, all other employees, the remainder which were Panamanian, these were to receive the American rates. There are several dozen classifications. This opens up grave problems on interpretation. Furthermore, there would still be differences in pay - even in a classification agreed upon for equal pay - because it is agreed that Americans are to receive 25% extra because they are serving outside their country. They also have living allowances. There are a lot of technical points here which are not clear

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to me. It's crystal clear that there is lots of room for argument and confusion.

3. The third problem is the very tough nut known as "third country purchases." In the 1955 treaty it was agreed that everything for the use of the Canal Zone was to be bought in Panama or the United States unless such purchases were "unfeasible." This has opened up great room for argument - what is meant by "unfeasible?" For instance, take beef. The cost in the United States, let us say, is 60¢ a pound. In New Zealand, it's 30¢. A purchasing agent bought the beef from New Zealand. Panama complained, thinking that a ruling would benefit Panama, claiming that it was not "unfeasible" to buy the beef from the United States. This point on beef is not yet settled but Colonel Holden seems to think that the beef will be bought from the United States. Indeed he states this flatly, and of course, the result is that the employees in the Canal Zone will pay twice as much for beef. Of course, the big issue is the flag. I shall report further on this in my comments on our interview with President Ernesto de la Guardia of Panama. But I shan't report in too much detail because the issue is changing rapidly. Panama is facing important elections in May. The President is to be inaugurated in September. Colonel Holden suggests that after the new Panamanian President is inaugurated, and after our own election in November,

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then we shall have to sit down with Panama and "look at the flag issue along with other issues."

Our cutback in troops in the Canal Zone from 175,000 - during the war, I presume - to the present 8 or 10,000 - has resulted in unemployment in Panama. This has helped accentuate Panama's complaints.

Colonel Holden points out that Panama does not want the Canal internationalized. This is a matter of top importance.

(President Figueres of Costa Rica told us he had joined others in suggesting that the Canal Zone be turned over to OAS. President Figueres is emphatic on the fact that the OAS does not belong in Washington. He has suggested that the Canal Zone be set up as a "District of the Americas" with all OAS ambassadors in representation there - in spite of the lousy climate. Governor Stevenson in his press conference in Panama, suggested that this might be the future of the Zone.)

The Panamanian government, it is believed, would far rather keep the United States as the owner - and would far rather negotiate a deal with the United States - than with OAS. Panama feels it has a much better chance to get concessions from the United States than from OAS.

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Cat. #1645
Memo #13

February 23, 1960

SOME NOTES ON THE VISIT

WITH FORMER PRESIDENT JOSE FIGUERES OF COSTA RICA

(Unhappily I was not able to get an opportunity to dictate these for several days and although I think I'm faithfully transcribing my limited notes, I have forgotten much on which I did not take notes, and am unable to fill out many points on which I would like to have elaborated.)

Dr. Figueres starts from the basis that the problems are very tough here in Latin America but that those of Asia are much tougher. He is aggressive and he is optimistic. He is a fighter and I could easily imagine his dying behind the barricades.

We visited Dr. Figueres at his famed farm La Lucha. This means "The Struggle" or "The Fight". He and his brother started their enterprises in 1928. This 1,000 acre farm was built up slowly. He regards all of it as under cultivation. Six hundred acres are in reforestation and he hopes this will come "in cycle" in a stretch of 12 or 13 years. The other 400 are largely in cabuva.

One of the high spots of our visit so far has been the visit to the rope factory in the middle of his farm. Some 70 or 80 families live on the farm and some 150 or 160 people are employed. The machines in the factory start with the leaf of the cabuva and run it through to the end product, smoothly coiled ropes of various sizes destined not only for domestic consumption but for foreign distributors. The small factory has its own power plant, operated by water power.

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This farm, which Dr. Figueres described as his "hobby" is owned by a corporation which also owns coffee plantations and other business interests. Dr. Figueres and his brother own about half of this corporation and the balance is owned by their associates. Some associates have quit them and started their own business, but friendly relations still prevail. Dr. Figueres says that some of the present associates do very well financially. The farm is not as important as the coffee plantations. The two Figueres brothers were born in Colombia of a Basque physician who was born in Barcelona. They speak Catalan. They started with nothing and have developed these remarkable enterprises.

It was at La Lucha that the revolution took form along in 1947 or 1948. At the peak of the fighting, Dr. Figueres was leading in the field 600 men who were well armed and dis ciplined. They were mostly students and university graduates of intellectual capacity. They were fighting about 5,000 badly trained and badly led opponents. After their victory, there was a provisional government and then Dr. Figueres was elected President. Under the terms of the Costa Rican constitution he could not succeed himself. Dr. Figueres says that the old right wing reactionary forces, which were venal and corrupt, are supporting the present administration which Dr. Figueres opposes. (I refer here to Silvert's excellent memorandum; there's much background available in it and elsewhere and I shall not try to elaborate further.)

Jose Figueres who is known as Don Pepe to everybody, including the taxi driver who took us to the university looking for him and the Governor. The driver asked the guard, "Where is Don Pepe?"

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Don Pepe seems to be one of Costa Rica's leading personalities. He is closely allied with the liberal movements throughout Latin America. He speaks of President Betancourt of Venezuela, President Lleras Comarga of Colombia - and other liberal leaders throughout the continent - as his close associates and friends. (Critics of Don Pepe say he thinks he's "too big for his country", that Costa Rica's problems are "too small for him".) Don Pepe's principal interest in Governor Stevenson's trip, as his attached memorandum written from Lawrence, Kansas will indicate, is to see to it that the Governor is properly guided so that he will understand the importance of the liberal and progressive forces in the various countries we visit - and will be properly allied with them.

Dr. Figueres sees the great issue of Latin America as that of the "dormant people" struggling to break the chains which have bound them - struggling upward towards the sun, towards a more perfect position and a better life. He is deeply concerned about United States policy. He says that South America has "nothing in common with China and the U.S.S.R. except that we are all human beings." Yet he makes the extreme statement that "unless there is a change in the United States policies in relation to the Hemisphere, there is the absurd possibility that South America may turn towards the Soviet bloc." To him, the United States seems complacent, prosperous, indifferent to South America. The U.S.S.R. and China seem aggressive, dynamic. The United States should be warned, he says, that the latter may win out.

He likes to point out the parallel between the New Deal and the present urgent need. Yet he is strongly against "charity"

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applied to South America. He says flatly, "The New Deal could not be solved by charity, and the problems in South America won't be solved by charity or by grants." Again and again he stressed that "the liberal groups do not want money given except in an emergency."

He feels that there is "a tendency in the U.S. to let American business do the job." He warns that this will make for trouble. The ways of the South American countries will not always be the ways favored by American business. What these countries want, he points out, is to develop their own resources. They do not want to be dependent on American business.

The problem is made very difficult for the United States, he warns, because we must seek "to protect the Latin American countries from their own oligarchies". He concedes that business has changed greatly, and for the better, within the United States. This is not true in Latin America. When North American business men come to South America and meet the rich and entrenched business and social leaders, they may like to think they are meeting their own counterparts. But "the rich oligarchies of South America are not like the successful and wealthy business leaders of the United States".

Dr. Figueres is interested in new capital for South America but he stresses that what is needed is more than capital. The South American countries also need knowledge; they need men and they need leadership. He told us the story of a GI who brought $10,000 to Costa Rica and developed a new chicken industry - "a whole new industry; he revolutionized the raising of chickens here; his leadership and his skill was far more important than his $10,000". He told

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us also of a man whose name I later determined, a Mr. Robert Anson, a young American pilot, who came to Costa Rica and founded a company named Sala which now employs 400 Puerto Ricans and only two Americans. This company fixes airplanes; it gives them complete technical and mechanical overhauling; planes come to Sala all the way from Canada to the Argentine, including U.S. Army planes. Here too, he suggests, is an example of what Costa Rica needs over and above capital, and it is also an example of the opportunity Costa Rica offers young and talented men who bring leadership and know-how.

One of President Figueres' complaints about the United States policies (which is one of my own!) is that we "never take the initiative". We are constantly fighting a rear guard action. He stressed in particular that the peoples of Latin America are more interested in freedom than they are in economic development. South America "is waking up - its aspirations are being aroused - etc." I told him that in this sense the problem in South America is similar to that of the problem throughout Africa and Asia. What I called the "Voice of South America", when I walked with him while Governor Stevenson was working, and asked him about many of these problems, I told him was indeed "The Voice of the World" - except of course Latin America's Voice should be clearly heard, he feels, because it is much closer to us.

Dr. Figueres points out that the South American peoples are "waging a war of their own which is unknown to us in the United States - at least this is true in eight or ten of the 20 Latin American countries." He says it's unknown to us because we're

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preoccupied with the cold war with Russia. The South American "dormant people" are waking up to their opportunities and aspirations and to their own internal problems. He adds that the Indians of Peru, Ecuador and Bolivia are "still a stratum without aspirations".

Dr. Figueres says there are 30 highly trained Costa Ricans [redacted] (b)(1) (b)(3) who spent a good year in the Marx-Lenin Institute in Moscow. While they are gone, their families are taken care of. Most of these are working against the United Fruit Company in the "banana union".

These Moscow-trained agents tell the people they are working with them for better conditions. They agree with the people that of course they want "freedom" too. But their objective is to persuade the people that they should sacrifice present freedom - in the long range hope that through such a sacrifice they will get better conditions and ultimately will get their freedom also. Dr. Figueres explains that they "dress up this sacrifice as merely a temporary loss". Dr. Figueres told us of a Peru banker who cynically commented, "The optimists in Peru are learning Russian; the possimists, Chinese". (Governor Stevenson said he had heard this one before!)

Dr. Figueres has strong views about Castro. He told us the full story of his visit to Cuba last March in an effort to be of help to Castro. He spoke to the Cuban people at a large rally, after several days in Cuba during which he was unable to get an appointment with Castro, and received a great ovation. Castro disagreed sharply with what he viewed as pro-American conciliatory remarks by Figueres.

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Figueres had telephoned several times in an effort to see Castro, and to get his guidance on his speech. There were two points dealing with the U.S. in the speech that made Castro "angry". A day or two later, just as Figueres was about to leave Cuba without having had a visit to Castro, the latter arrived with his entourage at 6:00 o'clock in the morning. (Castro never goes to bed until 8:00 A.M.!) Dr. Figueres is deeply depressed over Castro, "who had a great opportunity". He says there are crack Soviet experts working close to him. He says Castro is a paranoiac. Dr. Figueres contemplates the possibility of his suicide - or, even more likely, his assassination. (Castro sounds comparable to me to a Danton or Robespierre, rushing inevitably toward destruction.)

Events in Cuba are marching so rapidly that I do not see any point at this time in dictating the many conversations we've had about Castro. He's on everyone's mind and lips here.

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Cat. #1646
Memo #14

February 23, 1960

MEMORANDUM OF INTERVIEW WITH

PRESIDENT MARIO ECHANDI OF COSTA RICA

Present: Governor Stevenson and Senator Benton

President Echandi is a very attractive man in his late forties, handsome and witty but with no English. Ambassador Willauer was with us when we visited with him. So, too, was the President's entire Cabinet which sat in a circle but no one of whom contributed anything to the interview.

President Echandi represents the coalition of groups in opposition to former President Figueres. There is said to be bad feeling between the two men but they got along cordially enough in our presence. All the Right Wing conservatives are supporters of Echandi, and so, too, I gather are some of the Leftist groups.

Some comment of the President which I now forget, caused Governor Stevenson, in his opening comment, to state that, "The United States should leave no equivocation about its democratic convictions."

(Nicaragua adjoins Costa Rica and the Samoza dictatorship is of course a major issue in Center American politics - and we have heard more than once of the American Ambassador to Nicaragua, Thomas Whelan, a North Dakotan who has been there for many years and who is charged with undue friendliness with the Samoza family and regime.)

Governor Stevenson went on to point out that "disarmament in South America would be a fine moral example to the rest of the world."

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In line with a comment from President Echandi about stabilizing the market for commodities, Governor Stevenson said that he felt that the United States should always be prepared to "explore the stabilization of commodity prices." But he warned the President that we should not "underestimate the infinite difficulties." This point comes up everywhere, and usually very early in the conversation; for example, in Colombia from where I am dictating this memo, 80 percent of the total foreign exchange depends on the export of coffee and nothing is more important to the economy than the coffee agreement.

The President was very interested in the problem of capital investment. He asked why more foreign capital could not be invested in Costa Rica, "as the English did in the United States, allowing their capital to remain there?" The President wants "a common development with American capital." He was particularly interested in developing tax inducements which will help attract outside capital to Costa Rica. He said, "Puerto Rico is a good example where United States capital does not have to pay taxes in the United States." He told us that Costa Rica has a new law under which new industries pay no taxes, can import machinery free - and that this law is designed to attract capital.

Governor Stevenson said that there would be no tax in the United States on money invested in Costa Rica which is allowed to accumulate, and which is left in Costa Rica. I said that if the company qualifies under our tax laws as a "western hemisphere corporation" when such money is brought back to the United States, under the special law which I believe was originally sponsored by Nelson Rockefeller, there is only a 38% corporate income tax instead of 52%.

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Governor Stevenson pointed out the logical and obvious fact that what inhibits United States investments in South America, much more than taxes, is lack of confidence. This doesn't of course apply to Costa Rica and its government as much as to many other countries. But the Governor pointed out that the nationals of many South American countries keep their own capital in Switzerland, the United States and elsewhere. He asked, "If your own nationals won't invest their own money in their own country, is it likely that foreigners will?" Someone at this meeting, perhaps it was Governor Stevenson, said that he understood that the enormous sum of $250,000,000 in Colombian money was on deposit in Europe and New York. (In Mexico City, Governor Stevenson sat next to a rich banker-industrialist who told him he had $12,000,000 in the banks of New York and asked him if he had any ideas as to how he could best invest it!)

The President contends that American money should go by preference to the stable countries, who are friendly to the United States, such as Costa Rica.

I brought up the question of whether there was adequate opportunity for such capital, in contrast to opportunities available elsewhere. Would a common market develop in Latin America which would expand the opportunity for capital?

The President takes the position that there is great opportunity right now in Costa Rica. He made the surprising statement that only one-ninth of the arable land is under cultivation. He said that industry is just getting under way. He pointed out that there is great opportunity for the raising of beef. He said that Costa

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Rica produced a surplus of milk, of cocoa of the best quality, and of sugar - yet it has to import its candy. Why doesn't someone open up a candy industry? He said Costa Rica has the best timber - yet no system for processing the timber for export. He said the country needs a cement factory.

Now a most interesting comment from the President is that he wasn't seeking "big capital" but many chunks of small capital. He would like a lot of small enterprises coming in, such as is implicit in the foregoing, rather than the big corporations such as the United Fruit Company.

The Governor asked him about the opportunity in the field of merchandising (of retailing and wholesaling). I don't think the President understood this question. He replied by stating that he preferred having Costa Rica "manufacture its own products instead of importing them."

The President told us that the tourist trade is now financed 100 percent by local capital. Why won't foreign capital come in to build hotels and to help develop the tourist trade? Why won't foreign capital cooperate and compete on an equal basis with local capital? The President emphasizes that there are very good workmen and craftsmen in Costa Rica. He mentioned the enterprise Sala, which is described in the memorandum on our talks with President Figueres. Here Costa Rican workmen do all the difficult mechanical and technical repair work on airplanes.

(Costa Rica is largely white for the reasons pointed out in Silvert's memo, and is largely literate.)

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The President talked at some length about the new highway. He said the United States is contributing $2 for every $1 by the Latin American countries. But he asked, "What about the maintenance?" "What if we cannot maintain the highway? Will you give us two to one on maintenance? The U.S. has prohibited tolls. What are we to do?" Ambassador Willauer pointed out that the highway cannot pay off in the first five years, either through gasoline taxes for maintenance or through additional tourists. He says there will be landslides, and that the highway will crack and settle, and that maintenance costs will be at their peak during the first five years. Ambassador Willauer seems to agree that the United States must continue subsidies for maintenance. Governor Stevenson did not disagree. The Ambassador asked about gasoline taxes, but I do not now recall the import of the President's reply.

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On the night of our call at his office, the President gave a party for about thirty key political and business leaders. I sat between Senor Jaime Solera, President of the Banco Central, and Senor Alfred Vargas, Minister of Foreign Relations. The latter is a lawyer who seems completely new to foreign policy. The former has been president of the bank for nine or ten years and has apparently done a remarkable job in maintaining the stability of the currency. President Figueres had appointed him and praised him, though I thought reluctantly. Mr. Solera told me that his principal weapon was the fact he could always threaten to resign. Seemingly he feels

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that this threat gives him considerable political power. When I asked him whether his bank had bought the Indian gold jewelry, as has the Banco de Republica in Bogota, as a basis for its gold reserve, Senor Vargas suggested that Mr. Solera bought the best for himself! I'm not sure I understood the implications of the joke!!

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ECUADOR

Cat. #1665
Memo #33
March 4, 1960

VISIT WITH MR. WILLIAM BENNETT,
HEAD OF USIA IN QUITO - SENATOR BENTON

In Quito I visited with Mr. William Bennett, in charge of USIA, and I feel I have erred greatly in not visiting at length with the Public Affairs Officers in Mexico City and Bogota though I doubt whether there are many with the imagination and initiative of Mr. Bennett. I was greatly taken with him and his ideas. I shall try to visit with the Public Affairs Officers at future stops. I think I'll get much more out of them than out of many other things we've been doing.

Mr. Bennett started a magazine at age fourteen and sold it for enough money to pay his way through college. The magazine is still operating. He says he has been in the printing business therefore ever since. He operated great printing plants in Manilla connected with the USIA. He was responsible for printing a USIA magazine in twenty-eight languages with a circulation of over one million. He says that offset printing is virtually non-existent in South America and greatly needed in order to bring costs down. He says he can print for one-third of the cost in Ecuador of printing costs in the United States. Typesetters are paid $1.25 a day, for example. The printers are good in Ecuador but the machinery is all obsolete. He says there is excellent printing machinery and facilities in Mexico City, Rio and Buenos Aires.

Now Mr. Bennett begins with the view that the great and first opportunity of U.S. propaganda policy is the teaching of English. Of course, this was a discovery of the French back in the seventies

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and there has been a significant item in the budget of the French Foreign Office for close to 100 years - for the teaching of French throughout the world. The theory has been that if people are studying French, they will not only read French books and feel an affinity to France but they will come to France in order to perfect the language. This will help make Paris the cultural capital of the world, wholly apart from the big tourist business it will develop. When I was in the State Department, I remember my astonishment when I found there were five and ten different radio programs in many of the Latin American countries, going on each week or each day, teaching French at the expense of the French government.

Mr. Bennett thinks that there is potentially "big money in the teaching of English". He asks why the Britannica does not go in for it and in a big way. He says "the demand is enormous". The USIA program in Ecuador is now teaching English to 11,000 Ecuadorans through its "Binational Centers". These are the cultural American-Ecuadorian "centers" set up as propaganda vehicles through the USIA. In Ecuador, they are wholly supported by the revenues which accrue through teaching English. They charge $12 for a six weeks course. They have a thousand students paying such a fee in Quito. Mr. Bennett says that with good equipment and suitable materials, he could expand his 11,000 very quickly into 50,000. He said, "We now do it the hard way, only through teachers, and without any modern techniques or devices".

Last year, working with the Ministry of Education, he secured a decree which makes English compulsory in Ecuadorian schools,

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starting in the fourth grade. He says, "Now I'm greatly embarrassed because I do not have the teaching materials to provide."

Until last year, university students in Ecuador who studied English did not list it for credit towards their degree. Thus it didn't make any difference whether they passed their English courses or not. Last year, Mr. Bennett secured a ruling by which university students must take a setback if they fail their English, and will receive credit towards their degree if they pass it. Here again he is embarrassed because he can't help out with modern techniques. He says he knows people here in Ecuador who've studied English for twelve years and who cannot read it, write it or speak it. When he produces scholarship students for the United States, they must qualify on English, and he is greatly embarrassed because they can't.

Mr. Bennett has himself accumulated nine various kinds of textbooks and courses which teach English. Five of these come from the United States - the so-called Fries system which he says comes from Michigan; the Army system which he identifies with Monterey; the Rockefeller system which he identifies with Puerto Rico; the Berlitz system. (This conversation was in a car going at fifty miles an hour, taking me to the airport, and I am dictating it from recollection a day later - and my memory must be checked by someone who has background in this field.) The key point is that Bennett says that all of these systems are much too advanced. Thus there is no instruction in Spanish for teachers in the early elementary course. How can teachers who are weak in their own English follow such systems when they do not have clear instructions in their own language?

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He says that several of the systems are correct in that they are phonetic systems but that they are all much too complicated.

Bennett has wondered whether he will have to sit down himself and try to work out suitable books to teach English in Ecuador. I told him of our experience watching the class studying from tapes at the University of the Andes. We talked about filmstrips and I told him of our projected project with Torres Bodet. We agreed that motion pictures aren't required for the teaching of English - but rather suitable textbooks, records or tapes, and perhaps filmstrips. In order to get his deal through for English at the University level, so that the student would have to study hard in order to pass it, he "made a deal by which he promised to provide the tape equipment". He re-emphasizes, "The teaching of English should be our biggest propaganda objective". I shall come back to this in a moment.

Mr. Bennett opened up his conversation with me by telling me that he was greatly frustrated in dealing with American book publishers. He says that they try to sell their textbooks here at $4 and $5 apiece, even $15. The libraries don't even have such textbooks. He says that the textbooks should be printed cheaply for sale in this market at a price of roughly 60¢. As an expert printer, he is persuaded this can be done and his frustration comes because American publishers won't do it. When he was in the Far East, he had Scott Foresman persuaded to open plants in Tokyo, and they were going to produce films in Japan to go along with the textbooks, but this project fell through. He says the urgent need is "to get text books on a pocketbook basis".

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I told Bennett about our Physics series and our Chemistry series. He had never heard of them. Isn't this a breakdown in our promotion techniques? Shouldn't we develop a list of a few hundred key people throughout the world to whom we automatically send our key material? Some of this will strike sparks. We can pick up enthusiastic people who want to promote EBF - people such as Bennett. I asked him whether he was right in talking only about textbooks in the sciences, and we agreed that the two great needs in a country like Ecuador are the techniques for teaching English and science. I asked him why he didn't promote our Chemistry and Physics series, and his immediate reply was that these schools do not have projectors. I told him that we ought to be able to give them the projectors if they would buy the films.

This of course led us into a discussion of "Law 480", about which I know virtually nothing. This is the law under which our agricultural surpluses are sold in these countries, and exchange is provided in local currencies for special projects approved by our Embassy. Thus there are lots of sucres available in Ecuador. Incidentally, the sucre is a hard currency. The National City Bank lists it as the fourth hardest currency in the world - better than the pound or the dollar - preceded only by the currencies of Portugal, Belgium and Switzerland! Bennett says that if we are paid in sucres here in Ecuador, we can convert these sucres into dollars.

Now I shall try to summarize and pull much of the foregoing together, with some comments:

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1) There may be an opportunity in the teaching of English for Britannica, or for the Film Company, or for both. I have frequently mentioned this myself in memorandums to Bob Conger and others. I'm not clear whether there is a promising commercial opportunity or not. I believe we should explore the matter. Tentatively, I am doubtful. I'm also doubtful of Alex Ladas' project in Mexico in illiteracy, and for the same reasons. The techniques for attacking illiteracy, and for teaching English, are very simple. "The Good Monsignor" in Bolivia is attacking illiteracy through the radio. The University of the Andes is teaching English with cheap tapes which it makes itself. And the United Nations or anyone else can cheaply and easily make filmstrips for the teaching of English or for illiteracy. I doubt whether the profit margin is sufficient for us, though the need is urgent and great, and the market is enormous.

We should look into this field, it seems to me. As Harry Houghton puts it, "We need a plan." We've been kicking this around for a long time and we need to develop the information which will help guide us. Other officers like William Bennett ought to be talked to.

2) The possibilities of marketing records or filmstrips or tape - applied to the teaching of English - may be allied to the sale of printed materials in the form of textbooks. If I were McGraw-Hill, I believe I would listen intently to William Bennett, and try to figure out how to sell my textbooks in quantities in under-developed countries like this - and with them, to sell my films. Bennett says that Ecuador is not a completely centralized authority,

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with everything decided by a Minister of Education. He says there are six autonomous school systems, with independent power to decide. The two biggest schools in Quito are private. There are seven different universities - in seven different cities - each seemingly independent - and each city is equipped with electricity.

I told Mr. Bennett about the supplemental material which accompanies our Physics and Chemistry courses, and I told him we would send him a full set at once, together with our catalogs on Physics and Chemistry courses and our other films. He's promised to write us at length when he has received our material and ideas. Mr. Mitchell will have to decide whether to handle this himself directly from Wilmette, or whether to channel this through Mr. Ludas. As you will see, this interview further persuades me that we have a very great deal to learn about EBF's overseas activities - and that to date we have, and quite necessarily, been operating on a most superficial basis.

3) And this leads me to the films. I asked Mr. Bennett why the Embassy should not allocate money under "Law 480" for the purchase of our films. He seems to suggest that he thinks this can be done. He said he would like "to make Ecuador a pilot project on films" - that Ecuador is the second poorest country in South America - and that any plan that worked here in Ecuador should work even more easily in other countries.

Mr. Bennett wants us to see George Allen. He complains that Allen and the USIA have never developed "a worldwide system for teaching English." Why doesn't Allen employ Michigan or Berlitz, or

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one of our universities to provide the kind of material for teaching English which Bennett wants? Surely this ought to be one of the most important projects imaginable for USIA. I'm really trying to interpret Bennett in this question. Indeed, if I were Allen, I would bring the textbook publishers together and knock their heads together, greased by American money, so that they would move into these countries with the textbooks at the low price which Bennett wants. And my hunch is that he is right, that these textbooks printed in Mexico City or Rio - or printed with offset machinery here in Quito - could be sold at 60¢, all within the price range he sets up and wants, and at a profit.

Now it's late and I am far away, and I've spent as much time dictating this memorandum as was consumed in my conversation with Bennett! Might I be in order if I suggest a follow-through in the form a discussion of all of the foregoing subjects between Bob Conger, who has been here in Latin America, and who will be way ahead of me on much of the foregoing, and Mitch Mitchell? Ideally, Alex Ladas and John Rhodes would fit in on this. Perhaps Harry Houghton will be available. Harry and John Rhodes will be startled to learn that there is not a set of the Britannica in Quito later than 1946. This set is in the Municipal Library. The USIA set of the Britannica is 1929. This is a subject of regret on the part of our officers in Quito. Most certainly we need a new method of selling Britannicas to the United States government for a distribution overseas. This too rates careful and thoughtful study by Harry Houghton and John Rhodes and our Britannica Sales Department. Sets of the Britannica

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here are valuable promotion for Barsa, and for the de Sas in their efforts to sell sets to individuals.

Now we most certainly need a full study of everything potentially involved for both companies in "Law 480"!

Will Mr. Mitchell please guarantee a follow-through with Mr. Bennett with whom I was much taken?

Dictated in Peru
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P.S. - Bennett told me that "Law 480" prohibits giving money to pay off debts. Thus the remarkable American School in Quito, and I shall send you and the others to whom I've sent a copy of this - a copy of a memo describing our visit to this American School - cannot get funds under "480" for repayment of loans for buildings already built. Bennett's trying to work a way out of this dilemma. But under "480" he can and does give large sums to this American School and others for new buildings. And the question is why such sums cannot be given for the purchase of projectors and KBF films. Mr. Cornish, Principal of the American School, and an unusual woman, Mrs. Betty Jurgensen Moscoso, both regretted the fact that EBF films were so expensive that they could not get them and use them. They are getting and using films from the USIA - but they do not seem to be conscious of any EBF films among them. This whole area needs exploration. Why aren't USIA libraries supplied with more EBF films? Why can't sums under "480" be provided to suitable prospects,

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such as the American School, for the purchase of EBF films and projectors? Now I do not want long personal memos coming to me to explain these questions, or others I've raised in this memorandum or others. I ask them only so that Mr. Mitchell and our associates, together with Newt Minow can explore them and decide what the right questions are - and then set up procedures under which the questions can be answered for the benefit of all of us. Please don't think I am asking any questions on which I want any personal or direct response.

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ECUADOR

Cat. #1657
Memo #25

March 4, 1960

Incidental intelligence gleaned at the dinner given by the Vice President, Francisco ILLINGWORTH Ycaza, at the new Foreign Office on our first night in Quito, Ecuador. Dinner was attended by Foreign Minister Carlos TOBAR Zaldumbide and many members of the cabinet.

The Governor sat next to a young Minister of about thirty who has played a key role in Ecuadorian finance -- and in the continuing high stability of the sucre. The average age of the cabinet is only forty.

* * *

I talked at length with a Mr. Halinski, a Pole who works for the United Nations and is its representative in Quito. He told me of Paul Hoffman's recent three day visit when he started at 8:30 in the morning with breakfast dates and worked through until one or two o'clock the next morning. He said that no one had ever accomplished so much in three days. Incidentally, he tells me that there is a UN representative in every country.

* * *

I sat next to Ambassador Ravndal who told me that he'd been in the hospital in Washington last year for a couple of months due to an ulcer which developed from the "high tension created by high altitudes." Ambassador Ravndal says that the doctors told him he would have done better if he'd not been a teetotaler but had had a couple of cocktails every night! Another serious effect of high altitude, says Ravndal, is the loss of memory. He said he had not noticed this as yet applied to his wife and himself even though he has been in Quito for three and a half years. Ravndal says the normal tour of duty, because of these bad effects, is only two years. When he left the

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hospital, Undersecretary Henderson told him to return to Quito but implied he would seek another post for him.

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At the dinner Vice President Illingworth chatted privately with the Governor and told him that "regionalism must precede any successful operation of the common market." The Vice President threw up his hands in a gesture of futility at the thought that a small country like Ecuador could indeed ever become a viable economic unit.

* * *

After the dinner, Bill Blair came up to Subsecretary Ponce (second cousin of the President) with whom I was chatting. (Ponce for years was legal counsel to the Foreign Office before he became Subsecretary; he studied law in the United States and seems a warm and cheerful friend of the United States.) We were in a great high ceilinged drawing room, dominated by a picture of Bolivar, which adjoined the big dining room and which is the "old part" of the foreign office, used by the Foreign Office for key groups whenever they meet in Quito. Bill Blair asked for a telephone. Secretary Ponce exclaimed with a laugh, "This is the social part of the Foreign Office and we wouldn't think of installing a telephone." Ponce took him on a long tour of the business part.

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Ambassador Ravndal at a dinner explained simply the competition for promotion faced by a career officer. Ravndal is a master linguist. When I last visited with him in Budapest, he was spending a couple of hours a day learning Hungarian, and after five years or so he achieved considerable proficiency in the language. This was his eighth language.

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Ravndal describes this competition as: first from the politicians that have to be taken care of (examples would be the two Lodge brothers, Mrs. Luce, Bill O'Dwyer, Senator Ferguson to the Philipines, etc.); secondly, from political donors and key figures who want to be ambassadors (I'd do better - put Mrs. Luce in this category, together with Jock Whitney and indeed the three prior ambassadors we have visited - Ambassadors Hill, McIntosh and Willauer); and thirdly, personal favorites of the President or of the Secretary of State who have worked closely with them and who have "caught their eye." This group would be a kind of "palace favorite." (Excellent examples from my own days in the State Department would be Chip Bohlen, Selden Chapin and Jack Peurifoy.)

* * *

The great German scientist and naturalist, von Humboldt, the centenary of whose death was celebrated last year, is a great figure here in Ecuador. The big hotels in Quito and Guayaquil are both named Humboldt. The important current in the Pacific which so affects Ecuador's climate is called "the Humboldt current." I was told at this dinner that he left several descendants, illegitimate, Ecuadorans with blue eyes and blond hair. I laughingly described von Humboldt as "the last man who knew everything." (The following day President Plaza confirmed the Humboldt descendants and mentioned one by name.)

* * *

Manuella, Bolivar's mistress the last ten years of his life, again featured in the conversation, partly I suppose because she came from Quito. The group agreed that she was South America's most famous woman. Mr. Balinski suggested that there was a second, the Indian

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mistress of Cortes. The following day at the home of Galo Plaza's two sisters, we were told that one of their ancestors was Manuella's executor or legal counsel in Quito. The Plaza family has a great many letters from Manuella, written after Bolivar's death. Although she was in extreme financial difficulty, she refused to accept a legacy from her English husband. Dr. Smith has located her famous letter to her husband and I shall try to send it along. I must say it's the most famous letter I've heard about in some years, and has been mentioned to us again and again. This is the letter she wrote her husband, an English shipping merchant who wanted her to leave Bolivar and return to him. The general tenor is: "My dear husband, you know you have my respect and I deem you to be a most admirable man but surely you can understand why I leave you for Bolivar; better five minutes with Bolivar than a lifetime with you."

* * *

There was a photographer at the Vice President's dinner and afterward when he offered to sell me a picture, as we were getting into the car, I expressed surprise at such a proceeding at a formal dinner in the Foreign Office given by the Vice President of the country - but I bought the picture - and when I got home I found that it was a picture that had been taken that afternoon at our meeting at the University. After the meeting with the University Council, we were each given about half a glass of champagne. I remember commenting that it was the only time I had ever seen a University serve champagne to its students. In the picture which I'm attaching, the rector of the University is standing between Governor Stevenson and me. At my right, the tall man is Ambassador Ravndal and the short one in front

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of him is the vice rector of the University. Others are students or other members of the Council.

* * *

The next night, at a dinner at the Ambassador's we were entertained by some Ecuadorian musicians, a trio. I was told that Ecuadorian songs are sad, that the music and themes are characteristic only of Ecuador. I liked the theme of one of the songs, "If the wood is green, it's the smoke that makes you cry." One of the guests explained to me that the green wood referred to a young maiden.

* * *

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ECUADOR

Cat. #1656
Memo #24

March 2, 1960

MEMORANDUM OF CALL UPON THE RECTOR, VICE RECTOR AND THE COUNCIL OF THE CENTRAL UNIVERSITY IN QUITO, ECUADOR.

The group of 60 or 70 arranged itself around a horseshoe table with the rector and Governor Stevenson sitting in the center at the head. The rector read the attached statement which is a good example of the kind of rhetoric in which Latin Americans like to specialize. The Governor and I smiled later over this statement--and I submit it as a kind of case study--"In this dark hour, in which the lords of material strength pretend to acquire a monopoly of truth, ..." After the Governor replied in his usual courteous and skillful manner, the rector explained that the council consisted of nine students, nine deans--representing the various schools and divisions of the university--one representative of the Ministry of Education, the rector and the vice rector. The rector explained that this was the "highest organ of the university, and that the organization of the university was very different from universities in the United States." The Governor smilingly commented, "I used to think as a student that I'd like to run the university but later on in life I decided that students had better not run our universities!"

The Governor opened the meeting by asking about the acute shortage of facilities for education at the elementary level. The rector surprised us by saying there was no shortage of primary teachers, but merely of secondary teachers. He was not responsive to the Governor's question.

The Governor told of our visit to the University of the Andes. He asked about the splendid program under which twelve American universities cooperate with the University of the Andes, which loans money

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to its best qualified students to take their last two years of engineering in the United States. The rector replied that Ecuador had many students who went to the United States and to Europe for special studies. He said he favored an "interchange of students, not only of graduate students but of technically trained professors." Again, he did not speak directly to the Governor's point.

Referring to the Indians, the rector said that "a part of the problem in Ecuador is the large percentage of Indians who do not speak Spanish; we do not know the percentage; the real problem is economic." At our previous meeting with the president just concluded, he had told us that 95 percent of the Indians in the Sierra District did speak Spanish. (Here is a sharp contradiction of the type we meet frequently.)

An American exchange professor rose and spoke at some length about student exchanges. One interesting statistic: he told us that five universities in the United States have over 1000 foreign students and that at MIT 12 percent of the total enrollment comes from outside the United States.

One of the students spoke up to say that a basic problem in South America is the high level of armaments which keeps funds diverted from education. He told the Governor that the solution of such an "international problem" should interest him "as an American statesman." The Governor has been hammering on this theme and of course replied by saying that it was imperative to relieve South America of the burden of armaments. The Governor again repeated that Latin America should lead the world in disarmament. He said that he hoped the problems in Latin America which provoke armament--will soon be resolved.

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The student replied by saying that the military problems center around rivalries between Ecuador and Peru, between Bolivia and Chile, between Guatemala and British Honduras--also in Panama.

Comment was made on the paradox that the countries without the border disputes have the biggest armaments--Argentina, Brazil and Chile (although there is of course a minor border dispute between Chile and the Argentine).

One student demanded the stabilization of banana prices. I quoted at some length from a report I had just read on the United Fruit Company, notably the pages dealing with Ecuador, a report signed by former President Galo Plaza. This particular question about bananas on the part of this student helps illustrate how widespread is misinformation here.

By and large I felt that the time at the university was wasted. I even think we would have done better sleeping on this first afternoon in this high altitude! Of course, one reason that the meeting was largely valueless was that it was so big. The meeting helps illustrate the element of "risk" in the advance planning done for us through the Embassies. It is never possible to know how matters will work out--and how productive the meetings will be--and often meetings such as this are planned for the benefit of our Embassies and their public relations staffs--rather than to contribute to our own information.

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ECUADOR

Cat. #1658
Memo #26

March 2, 1960

Memorandum of Meeting With The President, Camilo Ponce Enriquez, of Ecuador. The meeting was attended by Governor Stevenson, Ambassador Ravndal, Senator Benton and Dr. Carleton Smith.

The meeting was in a long ornate room, the President's office in the beautiful 16th-17th century presidential palace on the main square of Quito. This square has the look of the kind of central square described in the O'Henry stories and elsewhere of an above average republic. Ambassador Ravndal acted as interpreter.

The president is a man under 50, medium height, bright eyes good profile, handsome, who speaks vigorously and gives an impression of candor -- although I do not think he told us anything that could possibly be regarded as confidential. He is the first Conservative elected since the '90's. He secured 29% of the popular vote but was elected because the other 71% was divided among several candidates. Candidate No. 2 received 28.5% of the popular vote. When we asked former President Galo Plaza about him, on the following day, he said that President Ponce had provided a responsible administration; that he had been moderate in his policies; that he had paid for the extravagancies and debts of predecessors, such as for the purchase of jet planes and destroyers; that he had strengthened the Central Bank and maintained the high stability of the currency. (Indeed, President Ponce boasted to us that the National City Bank said that the sucre, the Ecuadorian currency named for General de Sucre, Bolivar's top associate and closest military ally, -- that the sucre was "the fourth strongest currency in the world." The top three, I later learned, are the Belgian, the Swiss and the Portuguese!)

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The President opened the conversation by mentioning the importance of United States citizens understanding Latin America and the joint problem shared by the United States and Latin America in the fight against Communism. He emphasized the great differences in social structure among the twenty different countries of Latin America.

The President said that the Communist threat operates in three phases or areas:

1. The political phase, and "this is very dangerous". The Communists claim they are democrats; "they are very subtle".

2. The Communists capitalize on the racial problem; "they set indigenous people against the immigrants," reviving the hatreds of five hundred years ago between the Indians and the whites.

3. They operate destructively and subversively "on the economic front".

The President feels it is difficult to fight back on points #1 and #2. We don't want to criticize our own political system or engage in arguments about it -- and we indisputably have the problem between the whites and the Indians - but "we can attack on area #3." The President points to Ecuador's "great potential riches." These must be re-distributed, he said, "both the material riches and the educational riches." Ecuador must bring up the living standards and the welfare of the masses of the people.

I interrupted to question the President's work "re-distribute". I asked whether the problem wasn't the creation of new wealth rather than "re-distribution". The President replied by saying that in Ecuador there are "immense riches which are unexploited." He said

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that Ecuador can produce and export more bananas, more sugar, etc. He said the country needs capital and it needs technical assistance.

Governor Stevenson again asked about the Communist activities, and I asked whether the President would comment particularly on Communists' interests in the field of labor. The President replied that "the Communists were not threatening in terms of numbers, but like yeast, Communism germinates itself." (This is exactly the way Ambassador Ravndal translated the phrase.) The President explained that the Communists were very adept at exploiting the masses "who don't know where they are going or what they are up to." He spoke of the riots of last year. These were in Guayaquil. He said the Communists were at the bottom of them. (We've had other reports saying that these riots didn't have any of the normal manifestations of Communist riots.) He said it was only through government intervention that a revolution in Guayaquil was prevented. He explained that the Communists do not have "a direct influence", but added, "they know how to exploit dissatisfaction and how to direct it against the government."

The Governor asked about the Communist influences emanating from Cuba. The President replied briefly, "The Cubans have come here to Ecuador and have had influence over some individuals but have not had large scale influence."

The Governor asked how the President proposed to improve the lot of the people, notably in education and through land reform.

The President replied that in the cultural field, his administration had endeavored to improve the schools. In three and one-half years it had built 300 schools. (2,000 more are needed.) He

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said there were 300,000 to 400,000 children who lacked proper facilities and teachers. He said his administration had also built a technical school in Guayaquil.

In the economic field, the President said that his administration had devoted itself to two major problems: roads and hydroelectric power. (Ambassador Ravndal broke in and said he had been here all three and one-half years of the President's administration and he was "a happy witness to these activities.")

The President spoke of "the new port of Guayaquil", - one of six ports being improved and opened. He spoke of the fact that labor is protected through social welfare legislation against accidents, unemployment, etc. But he added that "many are not covered." Those covered by social insurance are the federal employees and those who work for public and private companies. The "indigenous employees" are not covered. One special feature in Ecuador, said the President, is that an individual can withdraw his savings (for example to build a house). He did not explain how this worked.

The three big new buildings of Quito are large modern ones with a big nameplate "Casa de Seguro", the new Social Security Building; the new Foreign Office; and the new building about to open for the Congress. (It is this last building which was to have been ready for the Inter-American Conference planned for Quito, and it is a lucky thing for the builders that the Conference has been postponed!)

When the President was campaigning, he said he had promised land reform. He has done two things: 1) encouraged a study of the problem by the UN, and 2) launched an important private project which is now under way. The problem is not, said the President, to take land

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away from big land owners and redistribute it to the peasants. Ecuador has lots of good government-owned land. The problem is to show how this land can be opened up and operated profitably. The President's representatives are now dealing with technicians to determine how to bring in people who will train Ecuadorian farmers to operate the land properly.

The President commented, "If I had gone hog-wild we would have had inflation." The President is proud of the fact that the reputation of the sucre is better than that of the dollar!

(I have just been interrupted for twenty-four hours and I hope the balance of this memorandum does not prove to be too repetitious.)

The Governor asked, "Isn't the Castro land reform movement popular?" In reply the President sought to distinguish "between the thinking people and the others." He did not elaborate.

I asked about Communist infiltration into the labor groups in Ecuador. I told him that in the United States we had been told that the labor groups in Ecuador were "one of the soft spots to which the communist-led Cuban labor movement might appeal." The President replied that this was correct. He said that, unlike most other countries in South America, the labor movement in Ecuador is affiliated with the international Communist movement. He said the leaders have been exported to Moscow for their education. But he contends that the workers themselves are not Communists. He states flatly that the great mass are "oriented towards the West." I again asked whether the Cuban movement is not indeed a threat. The President didn't answer this question directly but stated that he thinks that it is a threat all through South America.

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The Governor changed the subject by asking "How much do the Ecuadorian people participate in politics?" -- "How large is your electorate?" The President replied that Ecuador's population is 4 million (we have frequently been told that it is 4.4 million; this is the Embassy's figure, for example). The President said that 1,060,000 of these are registered. (Former President Galo Plaza later told us 1,100,000 -- this would be exactly 25% of the total population). To be eligible to vote a man or woman must be 18 years of age and must be literate. (Later we were told that to prove his literacy he must write his name, but that if there is any suspicion about it, he must take still further tests.) Of the 1,060,000 the President stated that 800,000 vote.

The President assured us that Ecuador "has much civic fervor." The Governor pressed the point further by asking "What kind of political life do the Indians have?" The President conceded that most Indians do not take part in politics. (Some place in our papers occur the figures on the number who do not take part in politics; they show that 50% of Ecuador's population is Indian; 10% Negro; 10% white; and 30% Mestizo). Most Indians are illiterate but "those who can qualify do take part". In response to a further question from the Governor, the President assured us that in the mountainous regions 95% of the Indians can speak Spanish. (Ecuador consists of three major areas; the coastal area; the Sierra or uplands, in which Quito is located; and the so-called "Orient" which is the great area in size, located on the east side of the Andes, sweeping down to the Amazon. It is in the Oriente where exists the acute border problem with Peru.)

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The President told us that he had started a major road "to open up the Oriente. He says this area is very fertile, "with great riches". He anticipates that his road will join up with a road from Brasilia. (The Ambassador interrupted to tell us that he had visited the Oriente and that is is so fertile, that he himself, with his own eyes, "has seen elephant grass nine feet high which grew in the short space of two weeks.")

Another project of the President is to open up the port of San Lorenzo -- and to hook it up by road and railroad with a Colombia border city, the name of which I missed, and thus directly with the Atlantic Ocean. This project, said the President, will be "a substitute for the Panama Canal, and this is very important to the United States -- in time of war ships won't have to go around Patagonia."

I asked about the President's victory in 1956 -- the significance of his victory with only 29 percent of the total vote. He told us that although his total was only 29 percent, this was the largest number of actual votes of any candidate in the history of the country. He does not think that any one of the four candidates who are now running for the presidency -- election day is June 5 -- will secure over 29 percent, even though he may exceed his total of votes. (On all sides we are told that three of the four candidates are running neck and neck -- the fourth being the radical left-wing Communist-supported candidate.)

The Governor asked the President how he felt about American investments -- and in what fields he favored such investment. The President replied by saying that he had tried to make it clear in many, many speeches that private capital will receive absolutely

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equal treatment and protection with Ecuadorian capital. He has sought to create a feeling of confidence for foreign investors, but unhappily the amount of such capital has been small. The President doesn't advise rapid change from agriculture to industry, but he emphasizes the fact that there is a great opportunity for capital to exploit Ecuadorian raw materials through developing new industry. Thus Ecuador has cacao and sugar and cheap labor, but lacks a chocolate factory. (This is exactly the same point made by the President of Costa Rica.)

For another illustration, he took the 15 or 20 million stems of bananas which are rejected at the docks, after labor and transportation costs have been paid to bring them to the coast. (Later I was told that Ecuadorian bananas some time back had constituted six of the seven lowest qualities of bananas graded on the American market, and now constitute six of the seven highest qualities of bananas -- because of the new rigorous policy of rejection.) These 15 or 20 million stems are rejected because they are too small or because they've been damaged. They are "a complete loss." Yet the President says the bananas could be used to make flour or "corn flakes" and the stem itself can be made into paper. The President has heard that the French have a system for so using the stems. Further, he has heard that these stems are "better than jute."

As we wound up our meeting, the President said that he thought the most important thing the United States has in common with Ecuador "is faith." He asked Governor Stevenson on his trip through South America to do what he could to regenerate the joint faith of North and South America. He conceded that the United States is now

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necessarily carrying the burden." But he insisted that if the United States is going to triumph over Communism -- it must have the support of the 180 million people of Latin America. The Governor replied that he felt that North and South America had failed adequately to exchange views with each other. Thus the OAS is an organization for officials, providing officials an opportunity to communicate -- but not the people. Both the Governor and the President spoke of the failure of press reporting in both continents. The President said that he was getting lots of information about the United States, as is his administration, but the important thing, on which we are failing, "is to distribute such information to the masses". The President said he read the New York Times regularly, and subscribes to it, "but almost nothing is published in the New York Times dealing with South America and its problems."

As we broke up, I commented that the flow of the news tends to follow the route of immigration of people. Thus there is a great deal more published in the United States about Europe than vice versa -- New York carries more news about Great Britain than London does about New York. I said I assumed that news about Spain received better coverage in the Latin American papers than vice versa.

We were due at the university and broke off the meeting in an atmosphere of high cordiality. As we left, we found a large group of Indians in the President's anteroom, a delegation calling on the President from some outlying village. We met the teacher who was a full-blooded Indian, with poncho and pigtail. Later, the following day at lunch, the Governor asked former President Galo Plaza when a man ceased to be an Indian and became a Mestizo. Galo Plaza replied, "when he puts aside his poncho!" Another common answer to this question is, "When he puts on a pair of shoes."

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ECUADOR

Cat. #1655
Memo #23

March 3, 1960

Meeting with Foreign Minister Carlos TOBAR Zaldumbide

(I like the way our Embassy in Quito capitalizes the name of the father by which a man is normally known, though the mother's name, throughout Latin America, normally follows.)

* * * * * * *

This meeting was late in the afternoon at the Minister's office and was attended by Governor Stevenson, Ambassador Ravndal, Senator Benton and Dr. Smith. We were late and were to see the Foreign Minister later at dinner at the Ambassador's home. The Governor selected the question of Cuba as perhaps the most interesting one to discuss at our quick meeting. (The call in this case, was largely because of protocol). When the Governor asked about Cuba, the Minister spoke at some length. He said that the Caribbean was a world apart, with a different mentality. He said he had spoken to Batista's ambassador to Quito and had told him that he didn't know which was worse - Batista or what would come after Batista. He referred to the "infantile quality in Castro." But he added immediately, "Castro is waving a flag which stirs a reaction in the lower classes throughout Latin America; anything that promises a new social order will raise an echo."

The Minister pointed out that it is "not easy to counteract Castro because he is so demagogical". But he said that he did not think Castro would last very long politically. He commented, "Castro's program is just not a serious one".

At the beginning, he said, "All Ecuador was enthusiastic"; - then he added, "now it is cool".

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Even if Castro is not a Communist, said the Minister, he lets himself "be taken along." The Communists infiltrate. They have a large influence in Cuba, he reports, and this is increasing.

In response to my question about Cuban efforts with the labor movement of South America, he said he had detected no influence thus far but he conceded that the Cubans could have an influence on Ecuadorian labor.

The Minister said that the Cubans had fired all their ambassadors. The new one has not yet arrived here. He reported that President Betancourt of Venezuela had kicked out the replacement. I asked the Minister whether Cuban ambassadors throughout the continent, if they were Communist dominated as reported, were not a serious threat. The Minister said he did not think the threat was serious here in Ecuador, but he felt it was very important elsewhere. Ambassador Ravndal interrupted to say that he thought this development was most serious. He reminded us how the Czechoslovakian Embassy here in Ecuador had interfered with internal policies, and the Ecuadorans had kicked it out.

The Governor asked whether Castro might not prove to be a Cuban Kerensky.

The Minister did not reply directly. He explained that the Communist party in Ecuador was small and "makes no dent and is of no danger." But he said that the Communists in Ecuador "worked on groups which are not Communist and through them exercise a big influence". He mentioned specifically a group of laborers on the coast which he said was not a union, which is known as the CFE. This group is now allied with the Communists.

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The Communist party is legal in Ecuador. When the Governor asked the Minister for other examples of groups with which it is influential, the Minister mentioned socialist groups. (I assume he referred to the Marxist-socialists and not the groups which support Galo Plaza's candidacy, some of which carry the name socialist).

* * * * * * *

The Foreign Minister is a slight man of medium height with wavy, curly, iron-gray hair, very handsome, a chorus girl's dream of a Latin lover - and, I am sure, most adept at the rumba!

Dictated in Ecuador
arh

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ANNEX 6

Carlos TOBAR Zaldumbide

Minister of Foreign Affairs

Born in Quito, December 29, 1912, son of Dr. Carlos TOBAR Borgono, Foreign Minister and unsuccessful Conservative presidential candidate in 1912. His sister Rosario, married Chadwick Braggiotti, now U. S. Consul General at Seville, Spain. Tobar's stepfather is Dr. Ricardo CRESPO Ordonez, Senator for Highland Agriculture and brother of the Minister of Social Welfare, Nicolas CRESPO Ordonez.

Tobar graduated from the Federal Institute of Technology in Zurich, Switzerland, in 1934, and studied diplomacy and law in Paris, 1934-37. He was Second Secretary of the Ecuadoran Legation at Madrid, 1939-41; Second and then First Secretary at Rio de Janeiro, 1941-44; First Secretary and Charge at Lima, July-August, 1944. He was then asked by Foreign Minister Camilo PONCE Enriquez to serve as his Under Secretary, which he did until Ponce's resignation in July, 1945. He was a delegate to the Conference on Problems of War and Peace at Mexico City and the United Nations Conference at San Francisco in 1945.

From 1945 to 1948, he devoted himself to the family interests, including a bakery in Quito, a potato farm, and a dried milk plant. In 1948, he campaigned for independent presidential candidate Galo PLAZA Lasso, and upon Plaza's election was again named Under Secretary of Foreign Affairs. In 1949-50, he served as Secretary General of Public Administration (staff assistant to the President), and in 1951-52, returned to the Under Secretary post. With the election of Jose VELASCO in 1952, Tobar returned to private life; but in 1956 he campaigned for Conservative candidate Camilo Ponce, and has been Foreign Minister since Ponce's inauguration on September 1, 1956. Tobar and Minister of Public Works DURAN are the only two members of Ponce's original cabinet who are still in office.

Tobar is married to Adela EASTMAN Lasso, daughter of a Chilean Minister to Ecuador and a first cousin to Galo Plaza. They have three children. Tobar is slender, blackhaired, of medium height. He speaks French and some English.

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ECUADOR

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Memo #32

3/7/60

MEMORANDUM OF VISIT BY GOVERNOR STEVENSON AND SENATOR BENTON AND PARTY WITH FORMER PRESIDENT GALO PLAZA TO THE AMERICAN SCHOOL IN QUITO

Galo Plaza was President of Ecuador from '48 to '52 and was the first president to complete his full four year term in something like fifty years. His father had served as President for two terms before him. He is possibly the leading candidate in the election scheduled for June 5th. (A President cannot run to succeed himself in Ecuador, and Plaza did not run in '56). He was the founder in 1940 of the American School, with the cooperation of the American Ambassador. He is chairman of the Board of Trustees and he took Governor Stevenson and me to visit it, together with our associates. The school has about 800 students, from kindergarten to high school, of whom 60 are Americans. Its principal is Mr. Robert Cornish, with an M.A. from the University of Iowa, who has been here for 2-1/2 years. The principal of its elementary school is Mrs. Betty Jurgensen Moscoso (married to an Ecuadorian), with a degree from a teacher's college in North Carolina, a most efficient sandy-haired robust woman who gives an impression of great internal power and determination. The tuition is $14 a month.

In 1940, the big private school in Quito was the German school, as it was in many cities throughout the world. The Germans did a most extraordinary job in developing such schools, in full knowledge of their propaganda value. (The Foreign Minister in Bogota told us that the German School is today the biggest school in Bogota and that his ten year old daughter attended it.) Mr. Plaza, as the Nazi threat intensified in 1940, set up the American school. (The

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German School was closed down during the war but is now open again and prospering.)

The American school has scholarships. Galo Plaza later told us that many scholarships have been given to full-blooded Indians who have later done phenomenally well in the United States in our universities. He told us of one Indian family with three sons who received scholarships. The four grandparents of the three boys are Indian peasant farmers. The father took a law degree and practices in Quito. Of the three sons, all of whom have gone through the American school, one secured a scholarship at Princeton and graduated magna cum laude; he was then given $2,000 for a graduate fellowship to study philosophy at Harvard; but he decided that the Philosophy Department at Harvard since Santayana's death, had gone to pieces, and he turned in his $2,000 and is now at the Sorbonne. The second son is a top athlete, and is earning top scholarship honors at the University of Texas. The third has just finished at the American school and is already a concert pianist.

We were told that most children some to the American School to learn English. The principal and others explained how all of them graduate "friendly to the United States" - and so remain. The school is co-educational, about even in girls and boys. This itself is new in Latin America. Not too long back, girls and boys were always kept strictly and widely separated. Mr. Plaza told us that Latin American women have only in this century been breaking out of "purdah" - and that the progress in Ecuador has been marked and remarkable - with this school as a symbol of it. We saw the boys

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and girls of the second grade dancing together, and very cute and amusing they were. They were doing native Ecuadorian dances, in which the handkerchief is used to cover the girl's face and eyes, in the manner of what Dr. Smith called "the old flirtation dance." (This kind of co-education is in the best tradition of the Quakers!)

The school provides busses. It is now trying to get more university scholarships in the U. S. for its bright students, along the lines of the plan at the University of the Andes described elsewhere. Mr. Plaza dreams of regional educational centers at the advanced level. He wants one university to concentrate on medicine, another on engineering, still another center perhaps for veterinarians. He wants such centers to draw students from all over Latin America. He thinks these would "break down nationalism." I pointed out the difficulty of establishing such centers except in conjunction with top universities with distinguished scholars in the natural sciences. He says he is willing to accept all the centers in the United States - if he can get the scholarships to send the students to them.

The American School has two rivals and is very conscious of this rivalry:

1) First there is an American Missionary school here in Quito, with an attendance of about 125 who are all Americans, about double the American attendance of Plaza's American School. Mr. Cornish and Mrs. Moscoso feel strongly that Americans here are not well advised to send their children to this competitive American School. They feel that American children here should turn their backs on this kind of "isolation". They feel American children do much better

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when they mix freely with Ecuadorian children in their schools. The argument of course for the Missionary American School is twofold: a) families who live here, away from the United States, want their children to be "American" and want them exposed to all possible American influence. (I don't happen to believe in this argument, not at all, and I am wholly on the side of Mr. Cornish); and b) the academic standards are higher in the Mission school.

(Ambassador Ravndal testified to this last point and says that it is so difficult to get a child into this Mission school that most of his people in the Embassy aren't able to secure admission for their children; Ambassador Ravndal suggests that the 60 Americans in Plaza's American School are in part an overflow of Americans who are unable to get into the Mission School.) However, the academic standards of Plaza's school are going up and it has been admitted to "The Southern Conference" or some other such association which grades schools in the United States.

2) Although Mr. Cornish and Mrs. Moscoso are very conscious of the competition from the Mission School, and resentful of the narrow appeal to American students only, they treat with disdain their second competition. This is Cardinal Spellman's effort to embarrass them. He started two American schools right next to them. They are called "Cardinal Spellman's American Schools." One is for boys and one is for girls and they are separate and well apart. They opened last year. They are supported by the church here in Quito, which in turn is helped from the United States. Mr. Plaza, whose party of course is anti-clerical, says that "The whole effort was to undermine us." He says it hasn't hurt his school in any way.

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Sadly he told us how some years back, each week, his American School had in attendance a priest, a rabbi, and a Protestant minister. They came to speak to the students and to instruct them. Cardinal de La Torre, the head of the Catholic Church here, forbade the attendance of the priest. This made it necessary to call off the rabbi and the Protestant clergyman. Mr. Plaza told us this story to illustrate to us the deep seated antagonism of the church towards schools that are secular. Dr. Smith told me later that until less than 100 years ago Ecuador operated under a concordat with the Vatican, closer than that of any other Latin American country, and that the complete educational system here was wholly under the control of the Vatican. Only in 1902, under the Presidency of Galo Plaza's father, was complete independence of the church achieved. Earlier the lands of the church had been expropriated and turned over to hospitals, which had been one of the exclusive provinces of the church. But only in 1902 were laws passed which permitted civil marriage, which permitted divorce, which sharply and clearly set up all education out of control of the church, and which fully and completely separated church and state.

I am sending along a batch of material from Mrs. Moscoso which I found at the hotel. A lot of this is in Spanish. The books seem to be the School Yearbooks for '58 and '59. Perhaps we can have them quickly reviewed. I suggest they be sent along to Mitch Mitchell. More important perhaps is the "Catalog". I do not know the significance of the "Colegio Americano De Quito" - but I assume that this is "The American School" (and I assume this because I see it was founded in 1940). This catalog should be considered as a supplement to this memorandum.

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And I am attaching the materials given us by the American Embassy dealing with "education" which gives more background material on this school and on the Cardinal Spellman Schools. I see from this material that "the American School meets the standards of the Southern Association of Colleges and Secondary Schools."

P.S. As reported in another memorandum, Mr. Cornish and Mrs. Moscoso claim they couldn't get Britannica films because they were too expensive. I want to explore why films can't be bought for such schools through the operation of "Law 480", though the USIAA or Point 4, or otherwise. I'd like to take this splendid school as a case study for exploration of how to develop methods or techniques by which we can get EBF films into foreign private schools where they are desperately needed.

Dictated in Peru
Attachments
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ECUADOR

Cat. #1659
Memo #27

March 7, 1960

MORNING AND LUNCHEON WITH FORMER PRESIDENT GALO PLAZA.

President Plaza took us to the St. Augustine Monastery - and a most memorable experience it was. This is a monastery of 37 Monks surrounding a great cloister dominated by oil paintings by famous 16th or 17th century Ecuadorian painters. These paintings deal wholly with the life and trials of St. Augustine.

The central attraction of the monastery is a beautiful long room where the Monks meet and have met for 300 years or thereabouts. This is known as the "Charter Room." Here in this room in 1809, the first Latin American declaration of independence from Spain was signed by 30-odd Ecuadorians. Two of these men are great-great-great grandfathers or thereabouts of Mr. Plaza. 22 of them were later captured and executed by the Spaniards, including Plaza's two ancestors, and their bones are intermingled in a common grave beneath a great stone in the center of the Charter Room. The room is high-ceilinged and surrounded by beautiful hand-carved wooden walls. The death of the 22 patriots was one year to the day after the signing of "the charter".

We drove with President Plaza to the extraordinary farm of his two unmarried sisters, Maria and Joy-(I forget the Spanish name). We drove through several valleys. There are 16 of these great valleys in the Sierra or highlands of Ecuador, one of the country's three great geographical areas. We drove over old roads which were finished with cobblestones, put in by hand by the Indians perhaps 50 to 75 years ago-(Dr. Smith), and perhaps far further back. These roads wind over the mountains and the land is fertile and the scenery

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beautiful. It's easy to overlook the small brick hovels by the roadside, inhabited by the Indians - (average per capita income in Ecuador is $190, second lowest in Latin America).

President Plaza and Governor Stevenson sat in the front seat of the car and I missed parts of the conversation. In one of the valleys we passed, Mr. Plaza told us that the estate had been broken up so that the average holdings in that particular valley were only 50 acres each. He said that 400 acres would be the biggest holding. We saw many impressive old gates to the big ruined haciendas of the past. This break-up of the big estates has not been done by any legislative "land reform" but strictly by economic processes. Plaza pointed out that there were still very large land holdings on the coast. But the haciendas in this valley had broken up by processes of disintegration. He said it wasn't necessary any longer for purposes of prestige for Ecuadorians to hang on to land. The new professional groups do not feel they need land. But the landlord tradition is still strong and many of the Indian holdings require annual payments to landlords, such let us say as an annual pig on Christmas. Thus the Indians often do not have full and valid title. He wants to achieve this for the Indians and it is not easy.

Plaza pointed out some of the sharp differences between Ecuador and Peru. In the latter, he says, there are only about 400 families, descendants of the viceroys and old families, who own practically all of the good land. He explained that in Ecuador he and other leaders were trying "to channel the revolution." He expects that in Peru, where no such effort is being made, there may be "an explosion." He says that in Ecuador, through developing the

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country's resources, he hopes that "extremes" will be avoided. He spoke of the drastic medicine administered by Peron to the Argentines. He asked whether Argentine could survive Peron, preserving its democratic processes: it still remains to be seen. He commented that Brazil seeks to achieve progress through inflation. He described how the inflation constantly calls for "new salary increases, demanding new printings of money."

(Attached is the background memorandum provided by the Embassy in Quito - on Presidential candidate Galo Plaza Lasso.)

* * * * *

(My dictation was broken here by dinner in Guayaquil and please excuse repetitions henceforward!-)

As we drove along the cobblestone road, Mr. Plaza suddenly stopped for three people advancing towards us. Out we piled to be introduced to former President Isiero Ayora, now 87 years old - the President of Ecuador in the '20s. He was walking down the road, with his estate on either side, accompanied by his wife and son. He is more than half-Indian; his wife is "pure Spanish". He is a practicing physician, head of an important maternity hospital. He was treated with great respect by Mr. Plaza and we later passed villages and schools carrying his name. Plaza used him to illustrate that the 7 or 8 million Indians in Ecuador, Bolivia, Peru - "have great potential."

Plaza and the Governor fell into a discussion of the border argument between Peru and Ecuador. Plaza said, "We should have an armed limitation conference as soon as possible; such a conference for all of South America will force Ecuador and Peru to settle their

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own problem." Plaza said that Ecuador spent 36% of its budget on arms, but Peru spent 50%. He told us that Peru still had three separate ministers, one for air, one for navy, and one for the army. He thinks that internal pressures may be developing in Peru against such high expenditures for armaments. He seems to feel that the border dispute could probably be settled if Ecuador is given a navigable port on the Amazon. He said that better economic relationship between Peru and Ecuador would help. I gather that the coastal areas of Peru are not fertile, as are those of Ecuador. Plaza says it would be cheaper for Peru to import agricultural products from Ecuador, bringing them down the ocastline, than it is for Peru to import such material over the Andes from Brazil or otherwise. Plaza urges the development of better trade relations between Ecuador and Peru. He suggests that they have complimentary economies.

The rivalry between the two countries goes back to Colonial times. And the border argument is based on different interpretations of treaties and agreements dating back to Colonial times. Thus the church, back in the 16th century, held that the territory under discussion - was Peru's. But the imperial rulings from Madrid seemed to support Ecuador's claim. Plaza said that as long as Ecuador had plenty of available fine and productive land facing the Pacific, Ecuador neglected its oriente province with its land fronting the Amazon basin. Peru, without comparable lands facing the Pacific, did much more with its eastern Amazon land. And to this extent Peru has the best of the argument. Now Ecuador extremists want all the land back for Ecuador.

This particular dispute is a very sore and cancerous spot, and President Lopez Mateos referred to it specifically when he said

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that it had to be cleared up before a general Latin American disarmament agreement could be reached.

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I could write a lengthy memorandum about the visit to the farm of the two sisters. They help illustrate the great gap here in Ecuador, and in other Latin American countries, between the rich families of traditional power and wealth - and the masses of the poor, most notably the Indians. Galo Plaza's father was a self-made man, a teacher who became a general and who fought in the armies of El Salvador, Costa Rica and elsewhere. Indeed in the late nineties he was Minister of War in Costa Rica. He was President of Ecuador before he was 40. In his late thirties, he married a rich girl of 21 from an old and distinguished Ecuadorian family. Her father was so angry with her for the marriage that he never spoke to her again- but he did not disinherit her. (I don't know whether he could have!) Mrs. Eastman, who sat next to me at the dinner given by Ambassador Ravndal, is a daughter of a sister of Galo Plaza's mother. I have not made inquiries about the Plaza family, but from her I learned they own a house in Quito, a very large farm some 80 miles from Quito, to which Plaza constantly referred - and indeed I was later told that the family is so dominant in the province in which this farm is located, with so many hundreds of Indian families dependent on the Plaza family - that people joke about Galo Plaza's controlled vote in this particular province. He has taught the women on this farm to do hand embroidery, and engage in other local handicrafts, from which some earn as much as they do from their regular wages on the farm.

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The Plaza sisters' farm is beautifully landscaped with running water and a waterfall, acres of flowers, a large high ceilinged house of 15 or 20 rooms, a marvelous herd of cows which contain champion milk cows for all Ecuador, a big section of farm land devoted to corn, etc., etc. We were shown a cottage with the bedroom of the Indian who manages the herd of cattle, and the complicated scholarly technical books which he reads about agriculture, even though he has not proceeded beyond the fourth grade. We were also shown the "Trophy Room" in this cottage - full of cups and statues of cows and trophies of all kinds.

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ANNEX 5

Galo PLAZA Lasso

Radical Liberal Party Presidential Candidate

Born in New York City February 17, 1906, the eldest of the three sons of Leonidas PLAZA Gutierrez, Radical Liberal President of Ecuador (1901-05, 1912-16), and Avelina LASSO Ascazubi, member of an old Quito family. His brothers are Leonidas, now Ambassador to Great Britain, and Jose Maria, Liberal vice Presidential candidate in 1956. Galo received his entire education in the United States, graduating from the University of Maryland, where he was an outstanding football player. In 1931, Plaza returned to Ecuador, after 12 years in the States, to assume charge of his family's extensive ranches and plantations. He has since taken an active interest in Ecuadorian agriculture.

He was President of the Quito City Council (equivalent to Mayor) in 1938. From December 1938 to August 1940, during the administration of President Aurelio MOSQUERA and Andres CORDOVA, he served as Minister of National Defense. In 1940 he was a co-founder of the American School of Quito, and has been an active member of its board ever since. In 1942, he was briefly imprisoned after his brother Leonidas unsuccessfully attempted to overthrow President ARROYO DEL RIO.

Following the successful revolution of Jose VELASCO in 1944, Plaza was named Ambassador to the United States, serving until June 1946. He was a delegate to the United Nations Conference in San Francisco and to the first UN General Assembly in 1945.

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Plaza resigned from the Radical Liberal Party in 1939 and rejoined it in 1959. In the intervening years he was active as an independent liberal. In 1947-48 he served in the Ecuadoran Senate. In 1948 he defeated the Liberal-Socialist Coalition candidate, Alberto ENRIQUEZ Gallo, and the Conservative candidate, Manuel Elicio FLOR, for the presidency, receiving 115,469 votes out of 282,256 cast. In 1952 he became the first president since 1924 to complete a four-year term. He has since been active in United Nations affairs, heading the UN mission to Lebanon in 1958. On January 24, 1960, the Liberal Party nominated Plaza for a second term as president.

Plaza is about six feet tall, well-built, grey-haired; he is married to Rosaria PALLARES Zaldumbide, and they have five children. He speaks excellent English, with viturally no accent.

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GUATEMALA

Cat. #1648
Memo #16
February 24, 1960

Memorandum on Visit by Governor Stevenson and Senator Benton with President Ydigoras of Guatemala

President Ydigoras spoke softly and I missed part of his comments and thus asked Dr. Smith to dictate his recollections of the interview. (I shall send this along.) I thought I would supplement Dr. Smith's recollections with a few of my own. The President seemed to speak with candour. He invited us to go by plane to spend the night at Tikal, which unhappily we were unable to do in spite of our developing interest in archaeological sites throughout Mexico and Central America. The President commented, "Guatemala is a small country, but it is not so small that you can see it all in one day!" His remarks were livened by wit throughout.

The President was elected in 1958 at age 60 and he spent a good part of the next two years, at least the weekends, visiting the smaller communities and talking to the Indians. Our former ambassador, Mr. Mallory, accompanied him on some of these trips, he said. (I later made inquiries and received an estimate of three or four.) The President talked to the Indians about their needs, notably their need for water, housing and schools. He mentioned these three things particularly. Then, he said to everyone's surprise, in the recent elections he won control of the Assembly. He attributes this victory to those two years of campaigning.

The President says he is trying to run a good democracy and that this should entitle Guatemala to special consideration from the United States. He feels this factor is not sufficiently weighed in the balance in determination of United States policy in extending credits and loans.

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Of the 2,000 communists who fled the country in 1954 when the communist-dominated regime was overthrown, he has permitted about a thousand to come back into the country. He lets them trickle back, a few at a time. He thinks their impact will be much less than it would be if they all came back at once. He gives them freedom when they return. He spoke of a former Foreign Minister, who drew a crowd of 1500 at his first lecture, after his return, something like 500 at his second and 50 at his third. After a few more days, this man left the country for Havana. Some of these returned exiles have abandoned communism and are working out very constructively, indeed most of them are.

The President spoke strongly against Castro. He used discouraging adjectives which I have forgotten.

He said laughingly that all the people who had jobs in his administration were called "the party in power," and all those who had no jobs were those of "the opposition"!

The President was formerly Guatemalan Ambassador to London. He spoke of the long time which is required to develop a democratic position for a country like Guatemala. He wants American understanding in this process.

President Ydigoras impressed Governor Stevenson and me with his candour, his competence, his vigor and wit, and his seeming capacity for leadership. The fact that I do not more vividly remember more details of the conversation is due to the fact I did not take notes, in part because I did not hear all of it - and also that 36 hours have elapsed before I have had a chance to dictate.

President Ydigoras is 62 years old and in fine physical fettle. He neither drinks nor smokes.

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MEXICO

Cat. #1675
Memo #41
February 12, 1960

VISIT AT HIS OFFICE WITH PRESIDENT
LOPEZ MATEOS OF MEXICO
Governor Stevenson and Senator Benton

Ambassador Hill took us to the President's office and then discreetly withdrew as he had when we called on Foreign Minister Tello in the morning.

I did not get too complete a record of this conversation at the beginning. Dr. Smith, our interpreter, was interpreting hastily in a low voice directly to Governor Stevenson and I missed some of the early parts. The President and the Governor interchanged comments about the President's recent trip to several South American countries.

The President listed as principal concerns of the South American Countries, applied to the United States:

1. The lack of sufficient credits from the United States.
   (He pointed out that after President Eisenhower's visit throughout Latin America, this problem will be better understood.)

2. American companies take out too much in profits and leave in too little for investment and development. Growing out of the visit we had had with Senator Morse, I asked him whether this indeed was true. I told him that Senator Morse had reported to us that this was believed to be true, but that he did not think that it was true in fact. The President thinks that it is true in fact. This caused Governor Stevenson to comment that this charge perhaps mostly

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applies to the extra active industries - lead, copper, oil, for example, and mostly in Chile, Venezuela and one or two other countries.

The President pointed out that the capacity of the Latin American countries to buy from us and others, had dropped shortly after the war, and that this greatly aggravated the need for retaining profits from American companies - and greatly intensified the need for capital and credits.

3. The stabilization of commodity prices. This has been Point No. 1 on Foreign Minister Tello's list.

The foregoing caused me to inquire whether the President, in view of the fact the economic issues were the only ones he'd mentioned and stressed, thought that they were the big issues. He replied that these were those which were "fundamental."

He warned us, in response to a query from Governor Stevenson about communism in South America, that many "news reports" are interpreted by communists on the staffs of the papers into which they have infiltrated - and thus many newspapers reflect the Communists' viewpoint. But he said he thought there were few Communists numerically throughout the continent - "but they make a lot of noise."

The President said there is criticism of the interpretation of news reports from one Latin American country which are filtered through the New York offices of our wire services - into another Latin American country. He says that many think that such news

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reports are doctored in transit. I asked him whether he thought this was true in fact. I don't believe he replied to this directly. He repeated, "They think it."

He brought up the fact that the U.S. sells its cast off arms and to the wrong places in Latin America. He says that we've sold to anyone who wants to buy. My notes make me think I was wrong in reporting the phrase "chain reaction" to Minister Tello. At any rate, President Lopez Mateos used it about Ecuador versus Peru versus Chile versus the Argentine versus Brazil.

The President commented that we sold such arms "dirt cheap." Either he or the Governor pointed out that this whole subject is picked up by the Communists and used by them as a method of attacking the United States.

The Governor asked the President, "What could the hemisphere do to control armaments?" The President feels that we must seek to clean up the fundamental problems that plague us and which cause the various countries to buy armaments. Thus the President says that we must clean up Trujillio. We must solve the boundary problem between Ecuador and Peru. This last he regards as fundamental. He says the United States should back up the earlier treaty between Ecuador and Peru and bring pressure on the two countries to live up to this treaty. But he commented sadly, "I don't know what you can do about Trujillio!"

The Governor, deeply interested in the subject of disarmament, asked whether many Latin American countries wouldn't buy from the Iron Curtain countries - if the United States refused to sell them.

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This caused the President to reiterate the theme, "We must eliminate the basic causes." The Governor suggested that there is another cause for the purchase of armaments and this is the power of the miliary groups in many various countries, so-called military cliques. The Governor asked, "Wouldn't Brazil, which wants to be a great power, buy from the Czechs if the United States refused to sell?" The President replied that the United States would have to put the brakes on slowly and gradually. He does not suggest an out and out embargo because of this very threat of purchases elsewhere. In effect, he's suggesting a U.S. tightrope operation, but with the end objective to sell as few armaments as possible. (In such an operation, our military missions as described by Admiral Briggs in New York - see Holland briefing - could play a key role.)

The Governor spoke of the fact that Mexico has the smallest percentage of its budget for armaments of any important country of the world. He asked about Mexico as an example to the rest of the world. He suggested more aggressive Mexican leadership looking toward disarmament throughout Latin America. He made a private appointment with the President to discuss these or other matters with him further. (Later the Governor reported no significant progress on these questions in this subsequent interview.)

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Cat. #1624
Memo #5

February 15, 1960

DISCUSSION WITH MINISTER OF EDUCATION OF MEXICO

DR. TORRES BODET - IN HIS OFFICE

Governor Stevenson and Senator Benton

Under Torres Bodet's leadership, Mexico is engaged in a great new 11-year "Primary Education Plan" for which 70,000 new teachers are required. This year 4,000 new posts have been opened up, with teachers provided, but Dr. Torres Bodet reports that this is too few. He gave us these figures when we spent an hour or more with him at his Ministry during which he pointed out Mexico's urgent need for new schools and for teachers for primary education.

Torres Bodet referred to his program as a "very big and costly one." His present budget for education is 18-1/2 percent of the federal budget for 1960. It amounts to 18,000,000 million pesos. (Check) But for his new 11-year program he needs 400,000,000 more pesos - or more than double on the average over the period, of his present rate. (Check)

Dr. Torres Bodet feels his great program is much more than an attack on illiteracy, though he points out that the real way to learn to read is in school. He referred to his famous campaign of 14 years ago, when he was also Minister of Education, and when he called on every Mexican who could read - to teach one other Mexican, who could not read, how to do so. This he said was successful for three years and then the enthusiasm declined. My supposition is that the enthusiasm declined when Mr. Torres Bodet moved into other fields and when his leadership was lost. He was Foreign Minister in 1947 when I spent

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Cat. #1624
Memo #5

February 15, 1960

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six weeks in Mexico City as Chairman of the U.S. Delegation at the Second General UNESCO Conference, and it was then I first suggested him to our State Department as a possible Director General of UNESCO. (A recommendation opposed by our Mexican Ambassador Thurstone who felt that Torres Bodet, a friend of the U.S., was too valuable as Foreign Minister!)

The Minister's emphasis on illiteracy today has shifted. It is now primarily in the field of primary education (six grades). He wants to build the schools up throughout Mexico, adding a grade at a time. In the rural areas today, there are often only three grades.

Torres Bodet says there are now four and a half million children in primary school. By the end of his 11 years, he hopes to step this up to 7,200,000. In the last 50 years, since the revolution of 1910, the figures have stepped up from 2,000,000 to four and a half million. Now he hopes to add as much as another 3,000,000 in 11 years.

He says that there are 1,900,000 of the four and a half million children - in the first grade. Only 920,000 of these go along into the second grade - better than a 50% mortality. In response to a question from Governor Stevenson, he said that the fathers think a child should be able to learn to read and write in a year, that the fathers agree that this is important and are willing that a child give a year to it - but not two years.

Only 300,000 children finish all six grades and these are mostly in the cities. The big deficit of course is in the rural areas, and thus the Minister wants to put the first emphasis on the six. His big step forward this year is his plan for free textbooks for the

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first four grades. He gave us samples which have already been printed for the first grade and I shall send these along to Mr. Ladas and Mr. Mitchell. The second grade textbook is on the way. By March, textbooks for all four of the first grades will have been printed.

The Minister described the rural schoolhouse as one that will hold 50 children, equipped for a house for the teacher. I am attaching a booklet in Spanish which he gave me and which I believe will give much more about this. In each schoolhouse, ideally, there will be a projector for film strips and a lamp which can be used for radio also. There is, of course, no electrification.

One reason the Minister feels that the rural schools should be favored is because the city children are exposed to TV and have other advantages.

The Minister favors film strips for the primary schools rather than motion pictures, and not only because they are cheaper. He says the film strips are better for the 27,000 teachers who do not have adequate diplomas - and who need to do their teaching in conjunction with film strips. He agrees that the primary teachers also need television and motion pictures, but the big chance is the film strip "at the mass level." He wants the teachers "to do the explaining." The motion pictures, however, "are good for high schools" in the cities where there is electrification. He speaks warmly of the UN project which he says is "developing well technically, but has no budget." (I told the Minister of my talk at lunch with Dr. Carrillo, Rector of the University, on which I have reported in my memorandum to Mr. Ladas.)

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Dr. Torres Bodet continued to emphasize that the need is for inexpensive schools, and he stressed the fact that the teachers are more important than the buildings. This is why there will be a home for the teacher connected with the rural school. Today, before a Mexican doctor can get a medical certificate, he must practice for six months or thereabouts in rural areas. (This seems to be a kind of prolonged internship.) Doctor Torres Bodet would welcome a requirement under which all Mexican teachers, after receiving their certificates, must spend a year teaching in the rural schools. He would pay them the same salaries as they receive in the city. He thinks that many would decide they like the country, would discover that the salary goes much further in the rural areas, would marry some local girl and would settle in the country. He emphasized the nature of the student and youth problem which now exists with more than half of all Mexican college and university students here in Mexico City at the University of Mexico. This he thinks is "bad" and he hopes that the smaller universities throughout the country will be built up. Students who come here to the capital don't want to go back home. They even go on strike against returning home!

I asked Dr. Torres Bodet about the educational progress in other Latin American countries. He says the little countries have done the better job. Costa Rica is excellent; it's easy to get around it and it's had few Indians. Argentina was good before Peron. Saramenta (?) started normal schools in the Argentine in the seventies and eighties, with the help of American women teachers, and these proved very successful. Chile again is good; like Costa Rica it enjoys easy communications and has few Indians.

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In Mexico, the first fundamental has been due to the rugged, almost impassable terrain; the first objective must be roads. The roads have to be built before education can begin.

Dr. Torres Bodet says that President Comancho, under whom I believe he served as Minister of Education, always backed his Minister of Communications when he wanted more roads. Comancho gave roads the highest priority. Torres Bodet commented, "The road is a school which moves."

I asked how the child that might indeed have learned to read in a year or two - in a rural school - could keep up his reading. The Minister replied "that little reading rooms for mass reading" are being installed. These hold 50 or 60 books keyed to the interest of the community. People read out loud in the country communities. The books may deal with agricultural improvements.

The Governor asked, "Is there a great migration to the cities?" Torres Bodet pointed out that in 1910, 90 percent of the population was rural. Twenty years ago, 75 percent. Now only 58 percent. He said this posed very serious problems for education. The population of Mexico City was 750,000 when Torres Bodet was a young man. Now it's five million. It was at this point that the Minister told us how he was pressing for his "one year of social service for teachers" - in the rural areas. There's great opposition to this but he hopes to achieve it.

The Governor asked further whether the migration to the cities was having the effect of leaving the Indians in the country while the Mestizos become the city dwellers. Torres Bodet agreed

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that this was most unhappy. He told us of the remarkable work with the Indians being done by Dr. Alphonso Caso, the famous anthropologist who devotes himself to the Indian people and their improvement through his "National Indigenous Institute." This Institute gives courses in Spanish, provides technical assistance for the improvement of agriculture and the arts; provides engineers to help develop irrigation; etc.

There are four such major institutes now functioning, but 16 more are in preparation. These are autonomous but they require government money to operate. Although the money is funneled through Torres Bodet's ministry, Dr. Case operates more effectively by retaining his autonomy and his independence from the Minister of Education. He needs help from many ministries.

The Minister told us that education had strong public support in Mexico. In response to a question from me, he said that many Mexican states had substantial appropriations for education, some of the states spending more than 50 percent of their total budget on education.

Dr. Torres Bodet plans to send his assistant in charge of teaching aids and television - to the United States - a Mr. Noriega. (I said I would be happy to welcome him if I were available but I said that Mr. Ladas would look him up while he is here in Mexico - and try to arrange ways in which we would be helpful. The Minister said he would himself be very glad to see Mr. Ladas when he comes here.)

I told the Minister I would like to give a dinner for him when and as he himself comes to New York.

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The Minister told us that in the UN's "very important regional center here," for the development of teaching aids, there were 20 or 25 Brazilians on the staff and 20 or 25 Venezuelans - staff people "drawn from the countries where the interest is greatest."

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cc: Mr. Maurice Mitchell
Mr. Alexis Ladas

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Cat. #1623
Memo #4

February 15, 1960

INTERVIEW AT HIS OFFICE WITH MINISTER OF FINANCE
ORTIZ MENA

GOVERNOR STEVENSON AND SENATOR BENTON

The Minister told us that Mexico was very clear in its policy on foreign investment. He said Mexico wanted foreign capital - but doesn't want it "to ruin our own investors" - "doesn't want competition in fields already served by local capital, or in these fields we only want joint ventures." He pointed out that some fields were forbidden by law, such as oil. He gave us his speech of last May to the Bankers' Association listing nine points as the "outlines and limitations of foreign investments." Taken from the speech, these are:

a) They should scrupulously respect the laws and institutions of the host country and submit themselves in case of conflict to the national tribunals.

b) They should contribute to increasing the national income, and above all, to raising production in deficit areas.

c) They should stimulate foreign trade diversification; aim at equilibrium in the commercial and payments balance and at increasing the international financial capacity of the country.

d) They should not compete unfavorably with existing Mexican enterprises; nor displace national capital, or frustrate its future development.

e) They should renounce any political motive and contribute with all the means at their disposal to the creation of a favorable climate for economic development and industrialization.

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f) They should introduce and employ advanced techniques to exploit productive resources more and more rationally, and thus improve the living conditions of the working population.

g) They should be directed to activities which provide impetus to and favor the integration of industrial development which reduces the dependency of the country on the production and export of raw materials and on the import of manufactures.

h) They should play a supplementary role in financing and in economic development.

In response to a question about the high interest rates, he said that last December Congress had passed a law taxing profits at 90 per cent on interest returns on capital which exceeded more than 18 per cent annually. (This law seems to be widely ignored.)

The Minister said that Mexico will receive about $150 million this year in long term capital investment from foreign investors. 75 per cent of this comes from the United States. He contended that the free convertibility of capital here prevented large Mexican refugee capital abroad - plus the high return on capital here.

We asked whether he felt that foreign capital tried to pull too high a return out of the Mexican economy. He did not reply directly. He said, "In a bad moment, when a strain is on the economy of a South American country, the drainage by foreign capital creates criticism." He seemed to suggest that such criticism might be justified at certain times, in some areas, but by and large, he does not feel the withdrawal in dividends in excessive. (This was one of the criticisms mentioned by Senator Morse.)

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He says that many South American countries are afraid of the size of the United States companies. The Governor asked him about the Argentine formula in relation to the oil companies. He agrees that the formula may be good. He was not explicit.

He pointed out that the Mexican government "extended special credit in areas of need." Such areas are given special credits and tax privileges. Examples are soda ash, fertilizer and paper.

The Governor asked whether "new merchandising techniques" such as shopping centers, might qualify for such credits "as areas of need." The Minister ducked again and said, "These are encouraged." He pointed out that $250 million is spent by Mexicans in border cities of the United States. He admitted that more than this is spent by Americans in border Mexican cities. He said, "We buy more goods, but the Americans spend more money!" - in border cities.

(Our technical programs here in Mexico don't seem to amount to much. We have an industry program but it's small.)

The meeting with the Minister yielded but little.

Dictated in Mexico City
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(Antonio Ortiz Mena's title is "Secretary of the Treasury and Public Credit.")

cc: Mrs. William Benton

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Cat. #1622
Memo #3

February 15, 1960

A CONVERSATION AT HIS OFFICE WITH FOREIGN MINISTER

MANUEL TELLO OF MEXICO

Governor Stevenson and Senator Benton

The Minister served six years as Mexican Ambassador to Washington before taking office as Foreign Minister in the new administration of President Lopez Mateos. He was succeeded in Washington by Ambassador Corello, brother of the Rector of the University.

Minister Tello told us that he thought he could summarize the tone of South America with the one word, "impatient." He is just back from a six-country trip with President Lopez Mateos.

The Minister spoke slightingly of the resolutions at Inter-American Conferences. He said, "We pass 25 resolutions whereas we should concentrate on three or four real points." Guided by Governor Stevenson, he summarized the important points as follows:

1. Stabilize the prices on commodities. This is the single most important economic problem for Latin America. He told us how Mexico had cut back 20 percent on cotton production. We discussed in particular the problem on coffee with Brazil increasing production rapidly. Mexico stands third among coffee exporters. My recollection is it has just passed El Salvador. I expressed skepticism that the coffee could be stabilized unless or until production was curtailed. I suggested that stabilization might work with some products but might fail

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utterly with others. The Minister then raised the question as to whether the Western world should not refuse to buy Soviet tin or other Soviet exports - when such purchases, for example, break the market for Brazilian tin. He spoke of the efforts to secure stabilization, through production agreements, on some other product. I am almost sure it was lead - and the failure of these efforts because Canada and Australia would not go along. Such agreements are of course world problems and the U.S. is just one country whose agreement must be secured on them.)

2. The need for credits and financing. (Later in the day, President Lopez Mateos put this as the number one problem.) The Minister spoke of the large amount of South American capital now in the United States and in Europe. A lot of this, he said, was only earning one and two percent interest. He would like to see it invested in the new Inter-American Bank at five percent. The Governor was skeptical about how to prevail on these Latin American capitalists - so that they would so invest their capital. The Minister suggested that they might be granted tax exemptions on the 5% interest. He said they weren't paying taxes now on their refugee capital,

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and tax exemption on this money would not cost the Latin American governments anything.

3. The Minister suggested the importance of negotiating treaties on the subject of double taxation.

4. The Minister would like to see OAS strengthened. He does not favor intervention under any circumstances, though he mentioned the widespread complaints that the United States is supporting dictatorships. He also mentioned complaints against the United States for selling arms throughout Latin America. The Governor spoke of Mexico's low military budget, only six percent of the total budget in contrast to its 18 percent for education. The Governor spoke of the desirability for Mexican leadership on hemisphere disarmament. The Governor pointed out the dilemma for the United States on the sale of armaments in the responsibility of the countries which want to purchase them, and of course when Ecuador spends too much on armaments this produces a demand in Peru; Peru's purchases cause Chile to buy; Chile's new armaments force the Argentine to purchase; Argentina's activity provokes Brazil; et cetera as a "chain reaction." The Governor spoke of the demand by the military in many countries for armaments to sustain their own power and prestige,

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and the importance of the military politically. The Minister said that he was not necessarily contending that the United States was to blame in its policies in the sale of armaments, but he was reporting that the U.S. was criticized for them. He drew a sharp distinction here.

I did not feel that the interview was particularly productive or informative. The Minister was very cordial. He is almost a chain cigaret smoker. He gave us a long and elaborate luncheon which began with an hour or an hour and a half standing around over cocktails and ended about 4:30. We were then taken by the famous Mexican artist Tomayo to see his murals at the Palace Artes. Also there was an extensive exhibit of Diego Rivera's work. The latter concentrated on social questions; the former does not and has moved his studio to Paris. (I report such things to remind Governor Stevenson and me for any writing we do on a follow-up on this trip - on the chance we may want to elaborate on them.)

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Cat. #1621
Memo #2

February 16, 1960

ADMINISTRATIVE SET-UP OF THE UNIVERSITY OF MEXICO

The University of Mexico is governed by a council. And on this sits the sixteen deans of its various schools and divisions. From each is also chosen one professor. From each is also one elective student. The student must have an average of over 80 and be in the last two years of the college.

To these 48 are added the 20 directors of the research institutes. To these 68 are added one librarian, or representative of the libraries, and one representative of the employees.

What makes the problem even more complicated is that the 16 students are entitled to bring along 16 alternates. This is because the students graduate at varying times and thus require alternates to take over.

Foregoing will help explain why the students are so important politically in Mexico. The rector, Dr. Nabor Carrillo, told me he had been rector for seven years. He said his twelve predecessors have averaged one year and ten months. Three of them have resigned under grave physical danger. This danger and these resignations were provoked by the students who are very active politically.

A student is allowed to stay in the University of Mexico until he fails 10 subjects - or until he fails the same subject three times. The defenders of this policy, notably the public relations man at the University with whom I've talked, explained that the students come in with bad preparation and that the University of Mexico has over 50 percent of all students of Mexico - now a total of 49,600 students, and that the University must be lenient and be generous. In

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further defense of the very easy standards, which were bitterly attacked by Mr. Legorreta, president of the Banco Nacional de Mexico, and my friend, Mr. Villasenor, former president of the Bank of Mexico - when I dined with them at the Rector's - the public relations man pointed out that in Mexico only one student out of 127 gets to a university; in the United States it's one out of three; in France it's one out of 37.

A further mark of leniency is that the tuition is only $16 a year. Some 6,000 students are working on jobs which the University helps provide. Only 5 percent of the students, according to the public relations officer, really grade as "radical leftists" or "communists." I pointed out that this was a smashing 2500 students. Of course they are the ones that cause all the trouble, the recent bus strike and other strikes.

This governing council elects the three trustees. These are elected for life. They have sole responsibility for the budget and the money. They appoint everybody concerned with money. They have nothing to do with the curriculum or the conduct of the University - except the money. Their authority is unquestioned. But of course, 80 or 85 percent of the total budget comes from the government. Thus the government remains the key.

This council elects the Board of Governors, a group of 15. This board can have no government officials or university administrative officers. Each governor is elected for fifteen years and one new governor is elected each year. The board normally consists of three or four architects, two or three chemists, two or three or four

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former rectors of the University, three or four doctors, distinguished intellectuals or scholars, et cetera.

The above explains much more about the political problems of a university in a Latin American country.

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Cat. #1620
Memo #1

February 15, 1960

MEMORANDUM - BRIEFING SESSION AT U.S. EMBASSY
IN MEXICO CITY
Governor Stevenson and Party

Thirty or forty men were on hand representing all top Washington Departments. The conference we attended is held weekly and is opened with a ten minute news reel of Eisenhower's Wednesday press conference. In response to a question from me, I was told that this ten minute reel is shown throughout the world in Consulates, Embassies, and so on, and then loaned to clubs, homes, et cetera. Ambassador Hill says that this practice here in Mexico has resulted in pressure on President Lopez Mateos to hold open press conferences here.

The largest Consulate in the world is here in Mexico City, with thirteen branches. They have a record of 976 visas in one day. There is 50 per cent more Consular activity in Mexico than in Canada, the number two country. Mexico has a 2,000 mile border with the United States which someone called "The Spinal Column of Relations between Mexico and the United States."

(Not counting military personnel, this rates in personnel as our third largest Embassy and Consulate).

Mexico is a mecca of U.S. tourists - 600,000 annually spend $600,000,000, or a reputed $1,000 apiece - plus the revenue from the border crossings. This is by far Mexico's biggest business.

Ambassador Hill reports that 50,000 U.S. citizens live in Mexico, 15,000 in Mexico City. The American society here is one of the best; the American community is highly organized.

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Ambassador Hill, after eleven years in South America - (for six years an official of Grace & Company, and with two prior ambassadorial posts) - is appalled at the ignorance of South America in the United States. He wants television and articles from the Governor and me on our return - and from everybody else for that matter. He points out that Argentina is a country in deep crisis, as are many other countries of South America, while Mexico represents stability. No crisis attitude applies today to Mexico. He warns us not to lump the Latin American countries into one big bundle. We must deal with each individually.

The Ambassador continued in his emphasis on the importance to us of Mexico, pointing out that Brazil, in constant crisis, has "problems which breathe down your neck daily." He bewailed the fact that American newspapers give no attention to South American news. He mentioned John O'Rourke's Daily News in Washington as one of the few exceptions.

He introduced Mr. Smith, the economic expert. Mr. Smith pointed out that in order to understand Mexico, one must achieve understanding of its revolution of 1910. This is the key. This is the 50th anniversary of the revolution. The two key objectives of the revolution were - one, Land Reform, and two, Anti-foreign. Mr. Smith said that in 1959, President Lopez Mateos' first year, more land was distributed than at any time since '42. He estimates that 50% of all tillable land is now in communal holdings - with 70% or more in small holdings. He points out that only 2% of all the land of Mexico is tillable. The country suffers from a shortage of irrigation and fertilizers.

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The land policy growing out of the revolution has made the peon mobile. He can move to the city. He can climb to the middle class. This is the most significant thing which has been going on in Mexico for the past 50 years.

Stability came to the revolution in 1934 with the election of President Cardenas. Every President since has finished his six year term. Cardenas expropriated the oil in 1938. Since then, Pemex has controlled all Mexican oil. Oil to the Mexicans was a symbol of foreign power. Traditionally back to Viceregal days and dating back into Spain, the extractive industries have been the right and perogative of the Crown. Thus to the Mexican people it is perfectly right and natural that the Mexican Government control the oil. Pemex is now producing 100 million barrels a year which roughly meets domestic needs. Whether this is "a successful operation", in contrast to foreign ownership, is wholly beside the point. It's a political question. All Mexicans agree on Pemex. There are a few independents operating here, such as Ed Pauley, the Sharpless family, et cetera, but in toto they are infinitesimal from the standpoint of production. There are current efforts to take them over.

The mining, however, is still three-quarters in foreign hands. There is demand for more Mexican participation, but as yet mining is not attractive to Mexican capital.

Recently an article in the U. S. News and World Report applied the word "robbery" to Cardenas' expropriation of oil properties. This caused a sensation here in Mexico and much trouble. The oil corporations are being compensated for this expropriation but of course on

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a much smaller scale than they think legitimate. There is a hard core of Western residents here who feel bitterly about the low rate of pay to foreign oil companies based on the '38 expropriation.

Electric power is another basic resource. There are two big foreign companies operating here, and a few small ones, but they do less than 50 per cent of the total. President Lopez Mateos is adamant in his refusal to permit rates to go up. Yet higher rates are necessary to attract more foreign capital. The President wants to double the capacity in six years, and he wants half of this to be done by the private companies. Lopez Mateos recently terminated the conference with Mr. Black of the World Bank after seventeen minutes, a conference scheduled for two yours, when Black suggested that rates must go up if credit was to be extended for power development. The President hopes to borrow elsewhere. This is one of the ticklish questions overhanging the Mexican economy. The Government owned power company is buying machinery and borrowing heavily from France, Western Germany, Italy, and others - their equipment companies - willing to finance the Mexican Government owned company, - but the private companies "have no plans. The attitude of the Embassy is critical of the private companies. The intimation is that they have no ideas and are not willing to recognize what they are up against.

In manufacturing and other fields many foreign investors have brought in Mexican capital to participate. I asked for specific examples. The Celenese Corporation was given me as a very good one. Du Pont is another, and current.

The total investment by all foreign companies here is estimated at $1,300,000,000. Three-quarters of this is from the United

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States. Roughly the same percentage applies to new money coming in. But the current foreign participation over-all in capital formation, including agriculture, is only 10 per cent. Mexico is doing a phenomenal job on savings and investments on its own - and it expects to do the job by itself with foreign participation only under its own rules. Its rules naturally favor Mexican nationalism. State enterprise is highly developed and many factors favor it. Marxism permeates the economy. The School of Economics at the University of Mexico is Marxist oriented and its graduates have an important effect on attitudes throughout the economy.

The gross national product went up 4-1/2 per cent in '58 versus a 6 per cent average since the war and in contrast to a population growth of 2-1/2 per cent. In 1959, the gross national product will run around $9-1/2 billion or $275 per capita. Of course many areas are poverty-stricken consisting of Indians living back in the 17th century.

Mr. Smith thinks that Mexico's entrance this month into the common market "is the end of Mexico's isolation." Mexico never joined GATT. He feels that the entrance into the new common market group is largely emotional. More significant are Mexico's efforts to develop trade with Western Europe. Mexico wants to reduce its dependence on the United States. Seventy per cent of Mexico's imports now come from the United States, and the United States takes sixty per cent of Mexico's imports.

Lopez Mateos took office midst rumors of deflation, financial troubles, et cetera. During the past year drastic moves have reversed

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the trend, have attracted foreign capital, have increased exports, decreased imports, achieved a balanced budget for '59. These moves include holding back the capital investment program. The new President has laid the ground work for moving ahead in '60. The foreign exchange reserves are up from $300 million a year ago to $480 million. Still more foreign exchange is required. And of course there are only three ways to get it: more exports, more tourists, more foreign investments.

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Ambassador Hill returned to the stage of the small theatre in which we were meeting to say that too many speeches were being made in the United States on Export-Import Bank profits from Latin America and on the money we earn on our $10 billion investment in Latin America. He doesn't want the profits emphasized. He wants an end to such speeches. He introduced Mr. Leddy, the political affairs officer.

Mr. Leddy called the Mexican situation "unique." He points out that it is "seeped in history." He reiterated that the Mexican Revolution is the guiding force in Mexican thinking. Sui generis. The revolution was against the rich, against the foreigners and against the church. The primary aim of the revolution originally was to tear down and not build up. Originally it was leaderless. Francisco Madera might have given it leadership but was assassinated. Throughout the period 1910 to 1934 were the violent leaders, the Pistoleros, men from the ranks of the people but often with great ability. This was a time of religious turbulence which climaxed in

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'26 when the churches were closed. (It's still against the law in Mexico for the clerical garb to be worn on the street.) This background, Mr. Leddy thinks, helps give the United States the impression of lawlessness in Mexico. With the election of Cardenas in '34 began the period of pacification and consolidation. The labor unions developed (and communism grew.) Land reform was pushed. Communism was curbed by Mexican nationalism.

Then followed Presidents Commacho, Aleman, Louis Cortenas and Lopez Mateos - each selected by the small oligarchy of power, controlled by the party and the army. This is indeed a one party state, though proud of its 1857 and 1917 constitutions. We should recognize that the revolution has achieved many of its major aims, but the social goals still lie ahead. Each of the presidents has been in the cabinet of his predecessor and this has given his predecessor great prestige after his retirement under Mexican law (one term). Former President Cardenas still represents the left and is still a great power. Former President Aleman represents the right, quite conservative and a very successful business man in his own right.

The system of course has grave weaknesses. The political rallies are phonies without spontaneity. There were three hundred on hand to receive President Lopez Mateos on his recent return from South America but these were all government employees with a day off - and a black mark if not there. Such a system leads to corruption of course, the habit of making money in office - "mordita" - the bite or the rake off, under the table.

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All sixty senators belong to the party. So do 153 of the 162 members of the Assembly. All 29 Governors are members of the party; so too most mayors.

Yet there is no one in jail here for the wrong political opinions. The heavy hand of the party and the government is of course used against opposition meetings. The lights don't work, fire alarms go off, students demonstrate, and the leaders end up with three days behind the bars. Here is a great defect in the body politic.

This one-party policy is of course defended on the grounds that the party is all inclusive. This is the standard defense for totalitarianism. But many of the traditions go back to the Spanish Crown, many which contradict the political freedom of the revolution.

(Cardenas says that the agricultural reform has not been a success and states it is a failure of administration.)

Mr. Leddy pointed out that Mexico is the last country of the hemisphere to have been invaded by a foreign force - (the French). He reminded us that it has not tired to exert real leadership even in the Caribbean. He told us the story of a recent controversy with Guatemala on fishing boats. Four other countries backed Guatemala. My notes seem to indicate that he thought that Mexico was in the right on the controversy. He told the story to illustrate that Mexico earned the diplomatic support of its Caribbean neighbors.

Mr. Leddy stated that there is no feeling of affinity in Mexico for Cuba, even though the Cuban Revolution is partly based on the Mexican Revolution. Castro is not "viewed sympathetically here."

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Cardenas went to a Castro rally - and has been frowned upon - and there is much more background about Cardenas in connection with Castro which seems to have reacted adversely to Cardenas.

Although Mexico does not exert positive leadership in the Caribbean or Latin America, it is watched. Further, its stature is growing outside the Americas. It has very good diplomats at the U.N. Torres Bodet has helped raise Mexico's stature. The UNESCO Conference was held here last April. Mexico's voice is heard on disarmament.

There are three Communist parties here but they are weak. No one of them can get 75,000 signatures for a presidential candidate. The Communist leaders in the railroad strike here are in jail. This doesn't mean that Lopez Mateos is anti-communist. It does show that he will move against the Communists. Tolledano now has little power in Mexico. He's a greater figure outside the country than in it.

United States relations with Mexico are now the best in our history. There are no really serious problems. True, Mexico won't cooperate on inter-American defense. The Mexican leaders won't permit bases or defenses to help SAC. True, they will give no cooperation in the field of atomic energy. True, there are small border questions due to the shifting river. Yes, there's also an argument about the shrimp boats. (Shortly there is to be a conference of 80 nations on questions pertaining to the territorial sea, and Mexico, hoping for advantages, will make no concessions).

Yet the relations are the best in our history. The attitude towards us is often one of reserve, sometimes indeed of outright

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suspicion, but perhaps it is fair to say that the Mexican Revolution can be compared to the Harvard men of another generation: Socialists at 20, capitalists at 40, reactionaries at 60.

President Cortinas was once asked the nature of U. S.-Mexican relations. He described them in one word, "correct."

Mr. Leddy stressed the growing cultural relations - the visit of a U.S. symphony orchestra, of the Howard University singers, Kiss Me Kate, which is on the way.

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In conclusion we heard a good bit about the Soviet activity in Mexico. There are 125 Soviet citizens in their Embassy here living in a compound. The Soviet Embassy employs no one except Soviet citizens. From here, it directs Soviet espionage throughout Latin America.

Mikoyan on his visit made mistakes - he castigated the United States and was answered by a Minister of the Mexican Government, undoubtedly on the direction of President Lopez Mateos.

When the Cuban Ambassador returns from Havana, he reports to the Soviet Embassy before he goes to his own; he is a Communist appointed by Castro.

The Soviet Embassy here is a vast propaganda center for Latin America. The U.S.S.R. is said to spend $100,000,000 annually in propaganda in Latin America. The Soviet Embassy is helping to promote Castro's influence in Mexico with Mexican youth and with students - (and the U.S. must do much more with Mexican youth). The youth movement here is growing rapidly. There are now 50,000 students at the University of Mexico and the tuition is only $16 a year.

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In contrast with 125 Soviets here in the Embassy, (23 are children!) - there are only four Mexicans in the Moscow Embassy.

Ambassador Hill takes the view that it is we of the U.S. who put Castro into power. He mentions the New York Times and the New York Evening Post specifically as participants. He feels that we have "another China on our hands only 90 miles off our shore." He feels that "any encouragement to Castro will cut the throat of

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the United States." He has four suggestions, but these have been rejected by the Department: a) don't send Ambassador Bonsal back unless Castro ceases his attacks on us and promises in writing that they will cease; b) discourage all travel to Cuba because a visit to Cuba is dangerous for U.S. citizens; c) set up in escrow the premium price we pay for sugar - and call upon some high level judicial group to use this money to recompense those whose property has been expropriated in Cuba; d) submit evidence of Communist infiltration in Cuba to OAS. (The Caracas resolution calls for a meeting of foreign ministers of the American Republics if Communists take over any country.)

The Ambassador believes the charges that Raul Castro had a decree signed on November 12th authorizing him to take over our American installation at Guatemala Bay. We are only paying $3,000 annual rent for this installation, under contracts signed in 1903. We do, of course, spend about $5-1/2 million in this area. Admiral Burke says this installation is essential to our defense. (The Ambassador expressed skepticism.)

A question is whether Panama is the next sensitive area. There is now much discussion of Panama. The Panama election is in May.

The truth is, of course, says the Ambassador, that there is no democratic government in South America. Castro himself is the leading dictator. There are those on Ambassador Hill's staff who think that the Communists penetration in Cuba has been active, forceful and purposeful.

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Mr. Leddy read us an interesting dispatch from Moscow on an open meeting just held in Moscow covering a lecture by a leading Soviet scholar. This bulletin states that the Soviets think that South America is "the continent of the future," that Chinese tactics will apply, et cetera, et cetera.

There was much talk about Castro's Argentinian ally, Guevarra, who has the nickname "Che." I shall not attempt to cover this by memo; some of it was confidential.

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P.S. - Later I was told a young man can come down here from Fenner, Beane, Merrill, Lynch, and with $25,000 or $30,000 in capital - make a very comfortable living - loaning the money from his home at 25 and 30 per cent and more. I am also told perfectly safe loans yield 18 per cent. This helps show how the economy is booming - and the scarcity of capital.

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PANAMA

Cat. #1647
Memo #15

2/23/60

INTERVIEW WITH PRESIDENT DE LA GUARDIA OF PANAMA

by Governor Stevenson, Senator Benton
and Ambassador Julian Harrington

During the interview the President told us that one of the charges of the opposition was that Panama was "ruled by 40 families". Governor Stevenson and I had been discussing this particular aspect of Panamanian political life with Ambassador Harrington. He puts the number of families at between 25 and 50. They have the wealth; they control the politics. They are not old aristocratic families as in so many countries in Central and South America. Panama was broken off from Colombia in the early part of the century. Many of these families are newly rich. Although Panama is 80 percent Negro, perhaps more, they are white or Mestizo. They compete with each other in Panama for political power. There are three major parties and all are demanding concessions from the United States.

There is as yet no acute color problem, even though the graduates of the University of Panama, founded in 1935 and largely staffed by Panamanian refugees, are largely Negroes. (The sons of the ruling families go to the United States.) As unemployment or lack of opportunity increases for these Negro university graduates, discontent among them is almost certain to mount. Indeed, it would seem probable that the time will come when there will be an explosion in Panama. The ruling families may readily seek refuge in the Canal Zone, under the wing of the United States government, which they are now taunting. This opens up as a possibility for current discussion the question of sanctuary and our threat to withdraw it as well as other claimed rights of Panamanians in the Canal Zone.

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Corruption has been widespread, though the President is believed personally to be honest. The government is so intertwined with business that its approval is even required for the appointment of the manager of the local brewery. President de la Guardia was the manager before his election.

This memorandum should be read in conjunction with my report on Colonel Holden's "briefing" in San Jose.

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In response to questions from Governor Stevenson, the President said that the flag was now the big problem. He pointed out that manifestly this big question could not be left to both Parliaments. He referred to the current debate in the Congress. He said that the issue was purely emotional in the two Congresses.

He wants changed the symbol of the one flag, the United States flag, over the Canal Zone. He stated flatly that he would "reaffirm the three treaties, affecting the Canal Zone, between the United States and Panama - if we would agree to fly the Panama flag. He seemed to suggest that he just wanted one Panama flag in one spot. (Senator Smathers has suggested setting aside an acre for this purpose.) He agreed with Governor Stevenson's phrase, taken by the Governor from the first and original treaty of 1903, "as if the United States were sovereign" - as a phrase that he would reaffirm. I told him that it seemed obvious that what lay behind the argument and friction in the American Congress - was the fear that if agreement was given to the Panama flag - then there would be a long series of new demands, based on alleged sovereignty of Panama, even to the point of claim of full sovereignty over the Canal by Panama. The President again stated that he will reaffirm all prior agreements.

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His second complaint is that there is "divided authority" in dealing with the United States. There are three top officers - the Governor General of the Canal Zone (Governor Potter); the Commander of U.S. Forces in the Canal Zone (General Gaither); and the U.S. Ambassador (Julian Harrington). I laughingly told him that this sounded just like Washington. But it doesn't seem to be any joke to him. Ambassador Harrington later confirmed to Governor Stevenson and me that this is indeed a most serious problem. My conversation with General Potter and Harrington at the luncheon given later that day by Ambassador Harrington persuades me that it is indeed. I feel we need an able and strong American representative in the Canal Zone, in full and complete charge, and it seems to me that the best role for this man is as an Ambassador. Very grave problems lie immediately ahead, in the forthcoming fiesta, when General Gaither and General Potter again fear an invasion of the Canal Zone and when General Gaither is talking of a new type of tear gas and other forms of resistance. General Gaither and General Potter say that the left wing radicals of Panama, under communist influence, say that all they want is "one corpse". I warned the two generals strongly that the problems they were discussing had grave international repercussions. Governor (General) Potter is just back from his fourth (or sixth) trip to Washington since the first of the year. He said he found no one there who had advice for him which ran counter to current policy.

(I leave Panama desperately alarmed about grave outbreaks which will seriously embarrass the United States; and although Ambassador Harrington reassured me and seemed to feel much less alarmed.

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In view of his four and a half years experience in Panama, I can only hope that he's right.)

The President complains about the two sharp and distinct communities, Panamanian and American. He says that he knows "high officers" who have served for three years in the Canal Zone - who have never been in Panama City. He spoke of his background in charge of the beer industry of Panama. He said that the slogan of this beer was "the beer that fights for freedom from misunderstanding". He suggests that this slogan is not being lived up to by the two communities, though I gather that the enlisted men do not do badly with the slogan in the bistros of Panama City! (The President later complained that after the war the Canal Zone imported other beers from other countries, when the scarcity was no longer!)

The President stated that in 1931, the relations were so close between Panamanian leaders and U. S. leaders that it was easy to stop the U. S. army from coming into Panama to intervene in time of trouble - merely by joint discussions. At that time, he said, the relationship between those who lived in the Canal Zone and those who lived in Panama City were "fraternal and close". The Army officers belonged to the big Union Club in the city. There was no segregation. This has all changed. (Mrs. Harrington says one reason it's changed is that such marvelous clubs and facilities have been built in the Zone for American employees and troups - so why should they come to Panama? Another reason is the abolition of prohibition, which eliminates one reason for wanting to visit Panama City. General Gaither claims that the same "two community" way-of-life exists in North Carolina, where the Army keeps to itself in its own zone, and also to other Army communities - in Germany and everywhere.)

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The Governor asked the President, "Do Panamanians have full right of access to the Zone?" The President replied, "Yes, except for a few reserved places, and these are okay."

Later the Governor and I chatted about the cleavage between the two communities and we feel it is deeply regrettable. There are many possible antidotes, but no sure ones. (One antidote is the suggestion of Colonel Holden to eliminate segreation in the schools, beginning by the elimination of segregation within the Canal Zone itself.)

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We did not continue to enumerate points of difficulty and danger so categorically. The President continued by stating that he wanted the right to ship mangoes and other fruits and produce to the United States. Seemingly much Panamanian produce is excluded under regulations of the Agricultural Department. The President contended, "The better the economy here in Panama, the less important the Canal itself becomes to our economy and the less trouble you will have with us about the Canal". The President's argument is that it is in the interest of the United States to improve the Panamanian economy - that this is our best chance to fight communism and its fellow travellers in Panama. And the President wants a bigger sugar quota.

The President contends that in his dealings with the United States there is "too much red tape" holding back U.S. efforts to help Panama's economic development program. He says he spent $250,000 on plans for road improvement, expecting a loan from the United States, and now there is no loan. The interest rate became an issue. The Governor commented that this was tied up to the high rate of interest on the international bond market.

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The President spoke with a true show of friendliness towards the United States, and the Ambassador told us he is indeed anxious to remain a friend of the U. S., that he wants to thank us when we are helpful. The President quoted President Eisenhower who, he said, mentioned Panama specifically on one occasion as the only nation in South America to say that it was thankful for economic help.

Continuing with his complaint about red tape, the President said that our regulations forced him to employ men that were not needed. He went into a lengthy story about a $15,000 or $17,000 man he'd employed, under these regulations, who had quite - and he was then told he had to replace this man with a $26,000 man, and this was impossible.

He congratulated Assistant Secretary Merchant, whom he said he liked and admired for his candor. He said Merchant had told him that the United States recognized "Panama's titular sovereignty". At this point Ambassador Harrington spoke up and said that if President de la Guardia "would issue a statement reaffirming the rights of the United States" - "as if the United States were sovereign" - (Back to Governor Stevenson's original suggestion) - that this could help solve the current problem about the flag.

The Governor said that he thought that a limitation on what was meant by "titular sovereignty" was indicated - an agreement that there would be no hostile demonstrations, no assaults on the United States flag, no invasion by mobs of the Canal Zone, etc. President de la Guardia agreed.

The Governor suggested that such negotiations should be post-poned until after the two new Presidents were inaugurated - in other

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words until after next January. The Governor said that it would take some time to work out the many points under discussion. President de la Guardia took issue. He said he would like these questions settled before the elections in Panama in May. He said this might prevent "troublesome issues" in Panama.

The Ambassador said that he felt that it would be essential to define exactly what was meant by "titular sovereignty".

The President assured us that he was a friend of the United States. He complained that we treat "friends and nonfriends alike". This is a complaint we've had elsewhere.

The President said flatly that he thought that Castro was "crazy". He said that Castro, in the beginning, had had a big emotional response in Panama. Not long ago the Cuban Ambassador to Panama distributed over 18,000 cigars - at a ball game. But the President said that with the killings in Cuba, a reaction against Castro had set in.

The hard core communists in Panama were estimated at 20 to 200. My notes seem to indicate that this was an estimate by the Ambassador. Right now, things are quiet. But the President stated that there could be trouble if the elections were close, and if the government candidate wins.

The President commented that the communist propaganda was against the 40 ruling families, and that he was a member of one of them. But he claimed that no one on the Supreme court was from the 40 families. He said that only one in the Cabinet was from the 40 families. (I later gathered that this was a multi-millionaire Minister of

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Finance.) The President said that a middle class is now forming. He told us of multi-millionaires in Panama who were foreigners.

The President says that 27 per cent of the Panamanian budget goes to education, the biggest percentage of any American republic. Only 18 per cent of Panamanians are illiterate. There are 3,000 students in the University and the tuition is free.

Another complaint of the President is the feeling that the United States has adopted "the double pay". Thus, teachers who are Panamanians get $250 a month while American teachers get $400. He feels that many of the classified "security jobs" aren't needed as "security".

Under the '55 treaty, the Panamanian worker lost his right to buy in the commissaries in the Canal Zone. As a result, the business in the retail stores of Panama City went up by $18 million. The worker was hurt by higher prices, but business benefited.

The double standard in wages used to be known as the "gold standard" and the "silver standard". This was not only the pay difference but even the toilets were labeled "gold" and "silver" as a mark of division. Such an attitude, contends the President, creates lack of confidence.

In response to a question about the armed invasions from Cuba, discussed by Ambassador Willauer in Costa Rica, the President said that there was a band of 90 which invaded Panama last May.

In response to a question from Governor Stevenson, the President summarized the order of importance of the problems as follows:

1. The flag;

2. Lack of fraternization;

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3. Lack of equal pay;

4. Third country purchases.

On this third point, the President says that "when feasible" (see report on Colonel Holden) means "when available". The President suggests that the goods should be purchased from the U. S. or Panama, when available, regardless of price. The Governor spoke up sharply saying that this point should be clarified so that sound, economic practices could be pursued - that the agents purchasing for the Canal Zone should be allowed to buy wherever the goods are cheaper. The Governor said he opposed "artificial restrictions". He said this point of misunderstanding should be cleared up. President de la Guardia argues that the Panamanian cattlemen during the war provided the Zone with meat, when it couldn't be procured elsewhere. Why should they lose their market just because the war is over and someone else will quote a lower price? Similarly, why should his brewery lose its market after the war because somebody else claims his beer is better and gives a lower price? The President aggressively defends a protected market for Panamanians.

The Governor asked whether Panamanian politicians used the Canal too much as an excuse to jump on the United States. President de la Guardia answered, "Certainly".

In conclusion, the President said that he'd made a speech stating that he wanted the flag carried by a guard of honor into the Canal Zone - and that if this is done there will be no more demonstrations. He also wants the United States to assure him that if we ever give up the Canal, it will go to Panama: (this reflects the fear that the Canal may be internationalized.)

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The President turned to me as we broke up and asked me whether I was the publisher of the Britannica and this precipitated a chat in which I told him I would send him a set as a memento of the meeting and as a gift from the Governor and me.

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February 23, 1960

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PERU

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Memo #31

3/3/60

VISIT WITH HEAD OF USIA MISSION IN LIMA

GOVERNOR STEVENSON AND SENATOR BENTON

I spent an hour and a half with Mr. William Killea, head of the USIA Mission in Lima. Also present were Miss Koth, who devotes her full time to the Exchange program - (about 50 students per year); Mr. Rogers, the Cultural Officer; and Mr. Wyant, the Press Officer for the Embassy. Governor Stevenson was with us for a good hour.

I didn't get as much from this group as I did from Mr. Bennett in Quito, and I am writing this memorandum primarily because I think some of the comments may help illumine some of the reports on the Bennett interview.

The teaching of English is also very popular here in Peru and largely supports the bi-national centers. Thus the center in Cuzco, which we hope to visit, only takes an extra $1,500 to operate - over and above its fees from English teaching, and it employs a full time director, a Peruvian. A beautiful new seven story building is being built for the Lima Center from "480" funds. (When I tried to get further insight into these funds, and how they operate and how they may be available, Mr. Killea said that he had heard a most unhappy rumor: that such funds would be deducted in the future from the regular USIA budget and would no longer be extra money which could be spent on important projects which the USIA or the Embassy wants to promote.) Mr. Killea and Mr. Rogers seem to think that tapes are an ideal way to teach English, whereas filmstrips are preferable to teach how to read and write. When someone who is illiterate can see the picture of a familiar object, this greatly helps him learn to

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recognize the word for it. Miss Koth particularly complained about the present ineffectiveness of much of the English teaching. However, she says that in some of the Catholic schools and in some of the private schools, the teaching is excellent. She marvels at how well some students learn the language here in Peru. The best trained students can readily pass the tests for entrance to American universities. These are students from the richer and more privileged homes, which have the money to pay the tuition at the private schools.

But the brightest students with the highest marks from San Marco University - (oldest university by charter in the hemisphere and with tuition of only $5 a year) - often come from poorer homes and haven't learned English well enough to pass the tests necessary for admission in the United States. These are the ones Miss Koth is most eager to send to the United States. Miss Koth is having her last year's group from San Marco University, who were turned down by U.S. Colleges, spend this year studying English - and she is going to submit them again, or many of them.

The group complains about the high cost of text books. However, they have just purchased a text book with full rights in Peru for $700 and plan to print it here. When Mr. Killea said that his objective was to put American text books universally into Peruvian schools, Dr. Smith, who had joined the group, said he thought there would be some kickback. I said that I thought that Killea should pursue his objective because he will never attain it. We agreed that the great need is for scientific text books of American origin.

These people don't know anything about Britannica films. They gave me the attached catalog. Mr. Killea says that he thinks this

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is representative of the entire continent, though some of the big countries may have a somewhat bigger catalog. He doesn't remember any Britannica films in the catalog. None of these people had ever heard of the Dr. White Physics series, or the Baxter Chemistry series.

I do not see why Britannica films could not be bought locally for these catalogs with "480" money, in local currency, even if we are wholly unsuccessful in selling the films to the USIA in Washington. Should we not tackle the problem at both ends - in Washington and in the field? I was asked how many of the films were in Spanish and I vaguely replied that I thought something like a hundred - but that I knew it didn't cost very much to translate. Yes, we have a whale of a lot to learn about our market overseas - and how to exploit it - including how to exploit it through the United States government.

Many American corporations here are doing everything they can to develop good will. A company such as W. R. Grace, which operates banks and plantations and many other businesses here, which seems to have achieved the popularity the United Fruit Company lacks, - (W. R. Grace is just installing a Peruvian as its manager here) - might well purchase our White or Baxter series for use here in Peru. Certainly many schools could join together to use one set of these films, just as in the United States.

John Howe will be interested that the Cultural Officers work directly in the USIA, as do the officers on exchange of students, even though responsibility for cultural activities and student exchanges remain with the State Department. In the field, Mr. Killea,

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who previously served in Pakistan, says the operation goes on just exactly as it did before the USIA was separated from the Department. He has just attended a meeting in Mexico City of USIA officers from Latin America. He says that the desire is universal to put the USIA back into the State Department. Incidentally, he quoted me verbatim from a recent book, of which I've never heard, which he says is liberally sprinkled with quotations from me - including a speech I made to the Hospital Association back in 1946 or '47.

Mr. Killea says that the outline of the USIA program in the field is just about the same as it was when I developed it in the Department. The one change is television. He says the films from the USIA catalogs get a big play here on television - five or six of them being used daily on each of the three stations. Now this would seem to be an extraordinary market for Britannica films. He says the one big lack in the present program is filmstrips, that although these were planned under my direction back in 1947, they have never been forthcoming. He complains that the teachers don't want to take up film strips, but of course I told him this had been true also in the United States.

Dictated in Lima, Peru
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PERU

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3/3/60

SOME MISCELLANEOUS COMMENTS GROWING OUT OF VISIT TO MICCHU PICCHU

Our remarkable visit to the ruins of Micchu Picchu I shall not attempt to describe. I shall send you some of the travel folders. Mr. Smith is writing a memo. Senator Hiram Bingham, the discoverer of these ruins, is a great and famous figure here -- for his early exploits as a young man described in detail in one of the folders. In the Senate he's principally remembered because of the vote of censure of him, the last such vote before McCarthy. I remembered today the French wisecrack, "No man can call himself happy until his last day".

Our experiences in Cuzco and Micchu Picchu should be related of course to the problems here in Peru of the Indians, their history and their future.

Dr. Albert A. Giesecke was rector of the University of Cuzco from 1910 to 1923 -- for thirteen and a half years. He is now connected with the American Embassy in some kind of loose relationship that I don't quite understand. He was assigned to us to accompany us to Cuzco and environs.

Dr. Giesecke is an authority on the history and background of the Indians. He says there were six million Indians when the Spaniards conquered Peru in the 1530s. In the 1820s when the Spaniards were kicked out, only two million Indians were left. On the train from Cuzco to Micchu Picchu, he showed us great terraces going up the high mountains which haven't been cultivated for hundreds of years because the Spaniards forced the Indians off the land into the mines.

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Dr. Giesecke says that two-thirds or three-quarters of the tillable land on the great plantations is not being used. He wants to tax this land heavily so the hacienda owners will be forced to sell the lands to the Indians. He reports, as did Mr. Rogers in the Embassy, and Galo Plaza in Ecuador, "That the Indians always pay". Governor Stevenson broke in and said, "The simple people always pay". This of course is the business experience of Sears-Roebuck and the Encyclopaedia Britannica!

Dr. Giesecke says that at least half of the Indians of Peru are dependent on these big estates. All of them would have the opportunity to achieve ownership of the land, in his opinion, with the leverage of a tax on unused land.

The problems of educating and helping the Indians are grave. Frequently they seem much simpler to those who seek to help them -- than they turn out to be. Dr. Giesecke told us how a Point Four Program in Cuzco doubled the potato crop in just one year. The Indians were so overjoyed and delighted they held a fiesta for eight days. They ate all the potatoes. They did not even leave enough seed potatoes for the next year.

We were told a story about a Point Four team which moved into an Indian village to teach the Indians to boil water -- in order to cut down on illness and disease. After a year or two, of the 200 families in the village -- only 11 had been persuaded to boil water.

We were told a story by Governor Stevenson of the problems of a village in India -- in which the objective was to teach the inhabitants to open up a small chimney in the corner of their huts so the

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smoke could escape, the acrid fumes be removed, and the trachoma eliminated for children. He said the results were as anticipated, except that the draft caused by the scientifically constructed chimney resulted in the consumption of much more dung and this called for more cattle, and the so-called "natural rhythm of nature", if I recall Governor Stevenson's phrase, was broken. The Indian natives couldn't afford the chimneys.

We pressed Dr. Giesecke for his own program for the Indians and it worked out something along this line:

1. Let the Indian achieve ownership of the land.
2. Give him credit for his seeds and fertilizer.
   (See Mr. Rogers' comments at the Embassy briefing.)
3. Help him get instruments, communal instruments perhaps, to use in the tilling and development of the land.
4. A health program.
5. And only fifth -- an education program. Priority should be given to a literacy program for adults. A vocational type of educational program is needed for children.

Such a program, he contends, should be attainable within ten years, and should be pushed if communism is to be successfully combatted among the Indians. Dr. Giesecke thinks 20 or 25 years is much too long to wait.

Dr. Giesecke and Paul our officer assigned by the Embassy, told us that the next Congress will be "radical". The Apra party will dominate it if the elections are honest, and if the military doesn't intervene. This caused Governor Stevenson to ask, "Who

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exactly is the army? I had asked this question previously because it's evident that the so-called "oligarchy" doesn't put its sons into the army. Yet the oligarchy controls the army, which seems to consist of a small top group of officers largely from the middle class who in one way or another are subservient to the so-called oligarchy.

One revealing comment about the army was made by Paul. He said, "White men are never drafted". The enlisted men are Indians.

This comment caused Governor Stevenson to say that the five million Indians seemed to be innocent victims of their own army! And this does indeed seem to be true. When the Indian who has been drafted comes back to his village he can become the village bully.

The Governor and I have been puzzled about the role of the student in South American universities. We were told by Dr. Giesecke that the Peruvian Congress has just passed a law which confirms what has been the ipso facto situation. The students are to be given, by law, one-third of the representation on the faculty councils, which control the universities, and on the university council. This is in line with the pattern we have run into in Quito and Mexico.

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PERU

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Memo #39

3/2/60

MEMORANDUM ON THE EVENING AT THE CUZCO BI-NATIONAL CENTER

This is one of the seven Bi-National Centers in Peru. I hope I sent through Ed Trueblood's memorandum about his visit to it. The Center is supported largely by fees from English classes. The USIS covers the $1,300 deficit.

Dr. Giesecke of the Embassy, who for 10 years and more served as Rector of the University of Cuzco, says that the Center was founded by him with two Cuzco Peruvians in 1938. Of course such Centers were later promoted by Nelson Rockefeller, by the State Department when I was responsible for information and cultural programs, and are now backed by the USIS.

The evening was arranged in honor of Governor Stevenson and it was impressive. I am attaching the diploma given to me and similar ones were presented to Governor Stevenson and others of our party. Governor Stevenson was welcomed by a long speech, as is usual in South America, and responded with his customary skill and graciousness. He emphasized the leadership of the Peruvians in the Center - which of course is essential to such ventures - and the importance of teaching English.

The Center occupies a duplex room with a great balcony from which a stairway goes to the lower floor. The room is surrounded with color prints of the United States' scenic beauties, beginning at the left on the second floor and perhaps continuing for half of one side of the room. Then comes a great stretch of glossy-print black and white photographs of all kinds, followed on the right hand side of the room by great color reproductions of covers of Sports

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Illustrated - and finally, ending up on the right, plush lush color photographs of American scenes of concerts and indoor settings.

Downstairs the Governor and I saw large photographs of handsome athletes water skiing, etc. Both of us commented that we thought the photographs gave an impression of the United States and its people that was too rich and luxurious, far out of the grasp of the ordinary Peruvian.

Above all these photographs were pictures of Franklin, Lincoln and Washington, together with some Peruvian military figure whom I did not recognize - and in an isolated spot, a color picture of the Jefferson memorial in Washington.

After the speaking we were entertained by the six "Brothers Cardinas," Indians wearing their panchos who played flutes, the guitar, the "arpa" (a strange kind of harp which resembled a bass viol with an arrangement which somewhat resembled a harp on top) - a tiny little piano known as a pampa piano - and all of this instrumentation for the benefit of two of the brothers who sang. I particularly liked the title of one of the songs, "The Black Girl with Blue Eyes". Later was the dancing, called cara-chuncho. (This could be the name of the dancers!) The male dancers wore high pointed feathered headdresses, red jackets and carried spears. Later they were joined by girls. Five girls and five men did a long monotonous rhythmic dance called the "ceanchis". Afterward there was drinking of the famous and very tasty Peruvian drink known as the pisco sour. And we were shown the classrooms. And the library, a strange mixture of scientific and technical books with others of the most varied assortment. The library is now and they're going to start the experiment

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of a circulating library. Mr. Edward G. Bernard, an American from Vermont who is the operating head of the center, and who has been here two years and expects to stay another year - a young energetic, zealous and appealing man with missionary fervor - said he had been promised an Encyclopaedia Britannica! The Governor and I wondered whether a set of Junior would be more appropriate. Certainly some encyclopaedia should be included in these libraries.

Mr. Bernard told us that they show movies several times a week. These are documentaries from the USIS and because they are short of movies they are now getting them also from the British Information Service. I asked him whether he ever was provided with any Britannica Films and he said "No." I'm indeed mystified why none of our USIS branches seem to be supplied with any Britannica Films. Certainly they are needed for showing at these Centers - but more particularly for the schools. Their distribution through USIS, including television distribution as described to us in Lima - would seem to me potentially most beneficial from the standpoint of promotion of EBF, wholly apart from the sale of the prints.

These so-called "Bi-National Centers," as they are emerging from my reports on these countries, are a most important part of United States' propaganda policies. I am of course thinking in terms of our long range objectives and among these perhaps the most important is the teaching of English. Mr. Bernard reported that he has 750 students in his ten different sections this year. Unhappily all too many drop out. He only has ten advanced students. He has other students who have become teachers after as little as two years of

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instruction. When the Governor asked him why his students wanted to learn English, and would pay for the instruction, Mr. Bernard said that any one of them who could learn English could go to Lima and get a job at 5,000 soles - (this is about $200) - which Mr. Bernard described as a very good salary. He said that the students need English to qualify for scholarships in the United States.

I told him that I wished he could teach one of his students enough English to qualify for the job at the Cuzco Hotel at which we are staying, the luxury hotel of the city. Today I could not transmit English instructions for a 6:30 A.M. telephone call; nor could I, after repeated efforts, make myself understood that I wanted the bottled water; and only by finally appealing personally at the desk did I arrange to have a suit of clothes pressed. Incidentally, as a commentary on the Peruvian economy, when I tried to send a telegram to Lima tonight which perhaps ran 100 words, the hotel manager told me this would take two days. It took me two hours to put through a phone call and I got the wrong party and the connection was very, very bad when I finally located Bill Blair. I still don't know whether he understood what I was talking about.

I'm counting on Dr. Smith to cover our sightseeing in Cuzco today, and Micchu-Picchu, and our impressions of this fascinating old Inca area.

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PERU

Cat. #1670
Memo #38
2/28/60

CALL UPON PREMIER PEDRO BELTRAN OF PERU IN LIMA
BY GOVERNOR STEVENSON ACCOMPANIED BY SENATOR BENTON

The Premier explained to us, in line with the problem of land reform which dominates so many of our conversations in Latin America, that there is plenty of land in Peru and that there is no need to take the land of the big hacienda owners - or to conquer land - or to seize land from Ecuador. (Mr. Rogers of the Embassy takes a contrary view; see his comments at the Embassy briefing.)

He said that the great need was for roads. He spoke of a project in which the Indians moved to the eastern side of the Andes and learned quickly to produce a million dollars worth of agricultural produce. But this has to be transported over the mountains on "men's backs." The cost was $300,000 of the million dollars. What this project needs is roads.

The Premier spoke of a disease which had poisoned the cocoa plants.

He spoke of the need for a housing program and the requirements for capital financing. The Premier is pleased at the prospect of balancing the 1960 budget. (See Embassy briefing.)

Tax revenues will not come in, in sufficient quantities, during the first six months of the fiscal year; to finance the early months of 1960, he is going to float a bond issue - so that he will not have to borrow money from the Central Bank. This issue will carry a ten percent coupon - but he quickly explained that this is a low rate of interest because the banks charge 14 percent for money - and that in Brazil money draws 30 percent interest. These will be

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the first bonds in Peru's history. The issue will be for 250,000,000 soles - one-half for six months and one-half for nine months. Thus in the last six months of the year, the whole bond issue will be paid off. He "thinks he balanced the budget" - and he is sure he will collect the surplus after June to pay off the bonds. Peru has had a World Bank expert in Lima who has helped him develop this whole project. He says that Argentina used to handle its finances along these lines, before Peron, and he thinks that Argentina is again beginning to handle its financing this way. He urged us to visit, immediately when we reach Buenos Aires, with former Finance Minister Francisco Pinedo - Minister before Peron.

The Governor asked whether the Indians of Peru are in the money economy. The Premier replied, "In a way they are - every day they are buying more with money - the Indians are now feeling the need for things they have never thought of before."

The Governor asked about the migration of the Indians to the cities. The Premier replied, "Some are migrating, and the big cities are extremely crowded. The way to keep the Indians in the mountains is to make their lives more attractive." (See Embassy briefing.)

The Premier referred, when we talked of communism, to the Cuban broadcasts. He says there are three different Indian languages and he himself speaks the one that is spoken in Peru - the Quechua.

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The same night at the Premier's dinner at his home, we met a candidate for the presidency in 1966, an astute, remarkable lawyer,

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Fernando de la Valle. When I asked him whether he spoke this language, he said that it made no difference because those who spoke it had no vote! In Peru, one has to pass a literacy test for registration to vote.

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The Premier is a most attractive man, fluent in English with but a slight accent. He has an American wife. His home covers half a square block, surrounded by the beautiful "Lima" balcony, a corridor of about six or eight feet in width which projects from the second floor and surrounds the house. This corridor is a marvelous system of insulation. The Premier's house was built 130 years ago and has been in the family ever since. There are 32 rooms on the second floor which used to provide suites for various members of the family. Family portraits abound and we met at dinner a Miss Blackmer, an English girl of 26 or 28 who is descended from a common great-grandfather, and who is here under the auspices of the British Council as a concert singer and with her own paintings which will be given a show in April. She reminds me of the grand tour for unmarried English girls of about her age - traditional in English families - when the girls who haven't married are sent out to cousins throughout the world on a one or two year trip visiting relatives and friends.

The Premier gives an appearance of quiet power, of candor and independence. When I asked him how long his newspaper "La Prensa" had been in his family, he said that it was put out of business in 1930 by one of the dictatorships; that he bought it with a small

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group of friends in 1934 from the family which owned it and had reopened it. (For more on the Premier, see Embassy briefing.)

The Premier's wife worked here in our own Embassy during the war as an "economic analyst."

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PERU

Cat. #1669
Memo #37

THE LIMA SLUMS

One of the interesting experiences that Governor Stevenson and I have had has been our visit to the slums of Lima. I reported on such a visit in Bogota. We try to do this whenever we can. The slums in Lima seem the most degraded. The contrast was the sharper because we had had lunch at the Club Nacionale, certainly one of the most luxurious men's clubs in the world.

(I was told there are only two or three such clubs left in all Latin America. A great big domed building facing the beautiful square on which the American Embassy is located, and also the Hotel Bolivar - with great marble columns - the Club Nacionale is the citadel of the wealth of Lima.)

Within a five minutes' drive, one can reach the most execrable slums - on the bank of the dirty river - vast stretches of one room brick and mud huts in which people live in utter squalor, surrounded by a few chickens and guinea pigs. There are many such slum areas in Lima, having 20% or more of the city's population. In this particular area live about 1000 families. Their huts are built on garbage dumps, some going back 350 years. We were first shown through the least squalid part by an extraordinary French priest who runs a small wooden church with an adjoining shack serving as a kind of community center. And then he took us to the worst section, infested by hundreds of pigs, which are underfoot everywhere, burrowing for garbage. There are about 5,000 pigs roaming through this slum - for an average ownership of five pigs per family. Of course some families own 50

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pigs and some own one. I was told that the average price of a pig is about $38.

The dirt and squalor was unbelievable, yet in one of the huts I found 18 cases of beer; beer is believed by many to be the curse of these communities and the drunken men who came up to talk to us in mid-afternoon help give better understanding of why the United States passed the 18th Amendment!

There was a lot of newspaper coverage on this visit, and I'm getting it translated. I think this coverage, plus this report, will be enough for Governor Stevenson's and my purposes. Thus I'm not attempting to describe this experience further.

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March 8, 1960

To: Mr. John Howe

From: William Benton

This is a postscript to the memo I've just written you about Governor Stevenson's and my visit to the slums of Lima. These are called "barriadas". In the Philippines such slums are known as "barrios". In Johannesburg, they are known as "locations". In Hong Kong they seem to be referred to as "rentages". They are a phenomenon of many of the big cities of the world today.

I like a comment which was made to Governor Stevenson and me yesterday. A man told us that his favorite statistic about Peru is that "one per cent of the people own 99 per cent of the wealth and property."

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PERU

Cat. #1668
Memo #36

March 8, 1960

Report of a Meeting arranged for the Governor and attended by Senator Benton on Sunday morning shortly after our arrival in Lima - attended by various political and intellectual leaders as listed in the "Briefing Book" prepared by the Embassy.

Dr. Sanchez was the spokesman for the group. The Governor and I and two or three representatives of the Embassy sat on one side of the table -- with the Peruvians on the other side.

Dr. Sanchez, whom I had known at UNESCO Conferences in Paris, and who reminded me of our past association, presided, Carleton Smith sat next to me and translated. Dr. Sanchez wanted Governor Stevenson to understand the unanimity of the Peruvian people on the boundaries of Peru. Former Foreign Minister, Correa led off. He explained that he was a member of the opposition party but that all parties were in agreement. He said that the treaty dealing with the border had been guaranteed by the United States, Argentina, Brazil and Chile. He said that the area in dispute had been Peruvian for 50 years -- that this area had declared itself Peruvian by "self-determination". Thus Peru not only has the treaty behind its "rights" but also has historical background and precedence. He asked what Peru is to do if "every time there is an election in Ecuador, this problem is tossed at us once more by Ecuadoran politicians" -- or words to this effect. Seemingly, Galo Plaza, candidate for President in Ecuador's current campaign, had made a statement on this subject within the previous 24 hours which received a big play in the Lima papers.

Mr. Correa spoke passionately and fervently, and when he stopped Dr. Sanchez called on Mr. Townsend, who I gather is editor or

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publisher of one of the key papers. (check on list) Mr. Townsend spoke for the political group known as Apra. He spoke of the new "vibrant Latin America". He sharply criticized the United States for its support of "military strong men". He condemned us in particular for giving a decoration to former Dictator Jiminez of Venezuela. And also to the Peruvian dictator, General Manuel Odria. He said that South America needed a "new approach by its powerful neighbor, the United States". He said the United States needed to understand the necessity for South American industrial development -- and the great possibilities that lie ahead of South America. He thinks that the Governor's visit here will help achieve understanding of these objectives.

I have hope that the Embassy list will show the background of a Mr. Polar, who spoke next.

(I am dictating this from notes, three or four days later -- in Micchu Picchu!). He said that the United States has enjoyed extraordinary development, and has achieved a very high standard of living -- and now must help others. He pointed out that the United States prosperity depends on the purchases of other countries. He said that South America was a most natural market for the United States. He suggested that help to South America was not in any sense charity for the United States. He contended that an enlightened United States policy will want to develop South America in its own long range self-interest. He stated that the United States should reduce its tariffs and its quotas on Peru's products so that Peru's standard of living can go up. He asked for "softer and freer credit".

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He pointed to the urgent need for lower transportation costs. He asked United States understanding of Peru's efforts to develop its own industries. He urged a "fraternal partnership." He concluded by saying that the United States should be "more for Peru." He referred to the way that the workers in Chile and Venezuela share in profits. (I did not understand this point clearly - indeed I didn't understand it at all.)

Governor Stevenson changed the emphasis in his reply. He began by stating that he had the impression that Ecuador had wanted a settlement of the border dispute so that it would have access to the Amazon. The Governor said rather sharply that he thought the settlement of the border dispute should be reached promptly. The Governor said that it was difficult in the United States for us to help Ecuador and Peru when such large percentages of their budgets have been spent on armaments. "Why should large tax payers such as Senator Benton, want to give money to Peru and Ecuador for armament?" The Governor said he felt very strongly on the subject.

The Governor said that he knew that the criticism against dictatorships, and our support of them, was widespread. He conceded that the United States must devote itself to the problems of tariff and quotas. He said that he regretted that sentiment in the United States now seems to be growing for bigger tariff protection. (See report on Embassy briefing for impact of quotas against Peru.)

Governor Stevenson concluded by asking about the Indians.

Dr. Sanchez made an amusing observation. He said that we in the United States called anyone an Indian who had "one drop of Indian blood", (manifestly referring to the Negroes). Dr. Sanchez

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then said that "here in Peru, we only call anyone Indian who is full-blooded!" Seemingly, judging by some such standard, he contended that there are only 3 million Indians in Peru. (From the Embassy and elsewhere we have reports that there are 5 million.) Some one commented that in Peru an Indian teacher is the only who puts on shoes! (Galo Plaza, in Ecuador, had commented that an Indian stops being an Indian when he takes off his poncho.)

Dr. Sanchez contended that the Indians in Peru are "a problem but not a threat." Dr. Sanchez then called on Mr. Franco, (identify).

Mr. Franco said that one million, or 30 per cent, of the children in Peru are not in school. He largely agreed with previous speakers.

The Governor asked whether the progress of the economy was satisfactory. Dr. Sanchez answered wittily and specifically, "I have read that." Dr. Sanchez then referred to his salary as an intellectual, and the unhappy fact that he wasn't doing too well with it!! He said he was an economist and he didn't know whether the economy was doing well or not!!!!

But Dr. Sanchez thinks that the political stability is real, and that all parties want it to continue. He is hopeful on inflation. He is also hopeful that there will be no more Peruvian dictatorships.

The Governor asked about the problem of financing higher education, and referred to the fact that San Marco is the oldest university in the hemisphere. The Governor said this was another

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subject, besides the boundary dispute with Ecuador, on which he thought all parties should agree. The Rector of San Marco spoke of working on a budget of 70 million solars - but he needs 140 million. I commented that this need sounded like the need of all rectors of all universities everywhere. But I gather he has a far greater need for money than most. The Rector of the University explained that he desired to improve the university - with a better library and plant, et cetera. But the tuition is only $7 a year, and there are 15,000 students and literally no money for improvements. The budget, of course, comes from the state.

Dr. Sanchez told us of a study of the Peruvian universities made by a Professor Gibson from the United States - who "made many mistakes." We asked about private gifts and were told flatly, "There are no philanthropists here." I pressed further on this subject and Dr. Sanchez said, "These are feudal times in Peru, and there are no philanthropists." Dr. Smith pointed out that the rich people in feudal times used to give money to the church. The reply was that the gifts today were very small to the church and even less to education.

The meeting broke up abruptly because the Governor had to leave for a protocol call upon a representative of President Prado who is traveling in Europe.

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PERU

Cat. #1667
Memo #35

March 9, 1960

BRIEFING SESSION AT THE AMERICAN EMBASSY IN LIMA
Governor Stevenson and party

Charge d'Affaires Jack Neal presided over a group of eight or ten of his associates. His political officer, Carl Barth, led off by briefly sketching Peruvian history. The first period was after the change from Spanish rule; this he dated from 1824 to 1895. The control of the country passed from one "elite group to another". Seemingly these were all military dictatorships. A large part of the country's financing came from the rich untapped guano deposits which "financed the country and built the railroads".

(Yesterday Governor Stevenson and I were taken by yacht to some of the guano islands which lie right off the coast. We saw the thousands of birds at their work of conversion of anchovies into guano! We received a complaint that too much of the guano drops into the ocean! - and saw the little walls now built on these barren rocks in an effort to keep the guano from sliding off. We saw pen-guins, many of them, here only ten degrees from the equator. Guano is a government monopoly, with some 40 percent of the production for export. The islands are cleaned every couple of years. There is some argument developing that the anchovies might be more valuable than the guano!)

The second period was 1895 to 1919. Throughout, the country was ruled by civilians. This was a period of stability and progress.

The third period was from 1919 to 1955 when one military dictatorship succeeded another.

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Throughout all three periods Peru has been "ruled by an oligarchy composed of military officers, the Church, the wealthy business men and land owners".

During the period of dictatorship, before World War II, the political party of Apra emerged under the leadership of Haya de la Torre. For many years this was pretty much of an underground conspiratorial organization. President Bustamante's administration in 1945 was the first open and avowed effort at democracy. He included Apra in his "national plan", but Apra, which had grown to maturity underground, and had lived by terroristic methods, wasn't prepared for such responsibility and it fell apart and brought down the administration. In 1948 it was outlawed and General Odria took over as a dictator. He ran unopposed in 1950. He ruled until '56. He encouraged "free enterprise" and the country prospered for a period during his administration. But by 1956, even many members of "the oligarchy" opposed him. In 1956 the present President, Manuel Prado who is now in Europe as described by Time last week, was elected by a plurality of a hundred thousand. He had been president from '39 to '45, and had spent the intervening years in Europe. He is regarded by many Peruvians, he and his wife, as more European than Peruvian.

Prado restored democracy, lifted the ban against Apra, and restored civil rights. Odria retired to Washington and may be a candidate in '62. (Former presidents traditionally leave the country!)

The President has the power to appoint the Premier. In the last Cabinet shift, President Prado appointed as Premier and Minister of Finance the publisher and the owner of the Lima newspaper La Prensa,

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Mr. Beltran. Although Beltran has few if any friends in the Parliament (mostly lawyers and middle class) - the military "were probably in the background on his appointment". He has been doing pretty well, we were told, with his economic program. He aggressively supports private enterprise; has cut back sharply on expenditures and hopes to achieve a balanced budget in 1960; and indeed there is so much confidence in him that capital returned to the country after his appointment and the upward pressure on prices has ceased.

The major problem continues always the same, said the speaker - the millions of Indians who are largely illiterate and who live in isolated seclusion. As yet, the communists have made little progress with these Indians. The problem of the Indians continues to be Peru's great problem.

Apra controls labor, and not the communists.

The communists have been most successful with the students. They control the four student federations. The student agitation keeps building up. There are some communist members of Congress, but under "other names".

We were told there are 7,000 communists in Peru with perhaps a hundred thousand sympathizers. The number of sympathizers would go up sharply "if there was trouble". The party is not outlawed, but it is not recognized as a political party.

The political officer concluded by telling us that no one can now gain political control in Peru without the support of the armed forces. The military does not like Apra and may not permit an Apra candidate in '62 - and may not permit Apra to control labor

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after '62 even if it wins a victory. (We later learned that General Odria expects to be a candidate in '62.)

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We then heard from Mr. Francis Linville, the Economic Officer. He reminded us that Peru is one of the poor countries with an income of only $100 per capita. Sixty percent geographically lies in the jungle area eastward beyond the Andes mountains. This area is badly cut off from the rest of the country. It contains only ten percent of the population. Another 60 percent lives in the mountains which are also "largely inaccessible". The main road over the mountains rises to a height of 16,000 feet. The rest of the population lives in the coastal area which is largely desert but is fertile in its 40 oases where there is water.

The government is now depending on "free enterprise" to develop the country and there are no controls. This policy has been much more successful than anything that the government itself has done in the economic field. Indeed the per capita income was moving ahead until 1957. The world depression in that year cost Peru its gold reserve and it was necessary to devalue the currency from 19 soles per dollar to 31. (Now 27.) Inflation had been running, prior to the appointment of Beltran, at ten to 15 percent a year. Because it looked as if the economy was falling apart, and the political situation also, the President felt compelled to appoint Mr. Beltran who had been "his principal critic". Beltran's predecessors, when they needed money, borrowed it from the Central Bank. When Beltran took over, he put a stop to this and confidence developed and gold came

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back into the country. (Mr. Linville says that Peruvians do not have big balances abroad as do the nations of many Latin American countries.) Things are now looking up. Twenty percent of the budget admittedly goes to the military, perhaps 25 percent.

Forty-five percent of Peru's imports come from the United States, 35 to 40 percent of her exports go to the United States. United States' companies have $600,000,000 invested here, mostly in the extracting industries - in copper most heavily, then in lead and zinc and petroleum.

Grace and Company is a big operator here. It was started by an Irishman more than a century ago who had left Ireland after the potato famine. He started selling supplies to ships, then bought ships himself and operated them around the Cape. He finally moved to New York and was elected Mayor of New York three times. Grace and Company has done a remarkable public relations job here and its relations are good; its newly appointed manager is a Peruvian.

On Peru's four major exports - cotton, sugar, lead and zinc - Peru is handicapped in dealing with the United States because of our quotas. In response to a question from me, Mr. Linville agreed that perhaps Peru is harder hit than any other country, in relation to its size and economy, by restrictive United States import policies. (If true, this is an important point.) In the last sugar bill, the U.S. Congress cut back Peru's sugar quota beneath the Administration's recommendation. This problem comes up again before Congress this year. The Peruvians want a bigger quota. Their position is that they are friendly to the United States and support United States

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policies in the U.N. and elsewhere. Why should we take only 18 percent of their sugar production - while we take 53 percent of Cuba's? (Check.)

Mr. Linville concluded by telling us the Peruvian government has done nothing on land reform. (When we visited Cuzco, we were told that most of the land was in big haciendas, and that the owners often lived in Lima, preferring careers as doctors or lawyers or members of Congress - to living on their land.)

* * * *

Mr. Rogers then talked to us. He is head of the USOM. He spoke of the big haciendas which dominate Peruvian agriculture and commented "There is a great pressure on the land and there is now little land unused that is accessible." Mr. Rogers differed sharply with information later given us by Mr. Beltran, who contends that there is plenty of good available land, and that it is not necessary to break up the big haciendas in order to supply it. Mr. Rogers states that the jungle area, east of the Andes, where he agrees the government owns lots of land, is not only inaccessible, but would not be very productive. He says this land has a high rainfall and acid soil - though parts of it would be good for grazing.

Mr. Rogers spoke of the government's technical assistance programs which were started in Latin America by Nelson Rockefeller. He reminded us that it was in 1949 that President Truman recommended the extension of these programs to the rest of the world. This was President Truman's "Point Four" and the origin of this phrase.

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Mr. Rogers says his favorite statistic about Peru is that its total budget is approximately equal to the budget of the University of California - $230,000,000. (This is a minimum of at least $50,000,000 for the military and is a favorite theme of Governor Stevenson; if we put about two and a half million dollars into technical assistance, given to Peru by American taxpayers, it is in contrast to 20 times this sum which the Peruvians are spending on a needless military establishment.)

Point Four in Peru has a budget of $2,700,000. Two millions of this is devoted to education, health and agriculture. Of the remaining $700,000, $300,000 goes to "sending people abroad."

Mr. Rogers described the importance of agricultural exchanges here - with a budget of 100,000,000 soles. The United States puts in twenty million of these. The program employs 60 American technicians and 3,000 Peruvians.

Mr. Rogers reiterated the fact that Peru's most pressing social problem in the Indian. He asked, "As they move from the stone age, will they move towards the communists?" He feels that the agricultural program - with good credit terms and seeds and fertilizers - "may be the best anti". Such small credits to Indian farmers, plus roads, are "the best means of reform". He told us, as had former President Galle Plaza of Ecuador, that the credit of the Indians is excellent - they always pay the money back. He said such credits are excellent everywhere - even in Haiti.

Mr. Rogers told us that the key to the success of the Cornell project, which is described in my notes on the briefing session

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arranged by Ken Holland, is the extension of credit, as little as 300 or 400 soles for seed and fertilizer to an Indian family. He said it is the overhead that eats up the money and creates the losses on the lending program. He referred to the high cost of the paper work. (Offhand, I think a study should be made of this. I suspect that with machines or other modern techniques, a whale of a lot of this paper work could be eliminated.)

Mr. Rogers is persuaded that, "How the Indians will emerge will depend on the economic opportunities accorded them". He said, "We are trying to drive home to the Peruvians the danger latent in the problem with the Indians; most Peruvians wholly ignore this danger; Beltran recognizes it".

Mr. Rogers does not think that breaking up the big estates would help much in land reform. He says that this may happen due to political pressures, but he fears that "the Indians wouldn't benefit from it".

* * * *

Governor Stevenson said he wanted to understand better the border dispute with Ecuador.

We were told that the wars with Ecuador in '29 and '41 were "real wars". They started with fighting among civilians near the border. The armed forces were massed on the borders and then began to fight.

(Later I asked the military aide to the Vice President about the number of casualties. He said that two or three thousand were killed in the '41 war and eight to nine thousand were wounded. There

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were naval engagements. Later the Acting Foreign Minister told us that most of the fighting occurred in the province close to the Pacific. There are few people and there was no fighting in the interior in the disputed land.)

In 1942 a boundary commission was set up under the Rio Treaty and markers were put up along the boundaries. When the commission had only another 80 kilometers to go - also quoted as 70 kilometers and 78 kilometers and 32 kilometers - there was great controversy over the "water shed" which was to be the dividing line. There was contention that a new river had been discovered. Those final kilometers were never settled. The Peruvians contend that this settlement is all that is left to the controversy. (They say, and with fervor and passion and seemingly unanimously, as I later discovered at a dinner at Mr. Beltran's - they say "let us settle the 80 kilometers".) They point out that the boundary line is guaranteed by treaty and that Brazil, Chile and the Argentine - and perhaps the United States - have guaranteed the treaty and thus the line.

Ecuador of course contends that the water sheds determined by an American survey were a new discovery and that the whole boundary thus needs to be re-examined. Ecuador further says that the agreement through the boundary commission was secured by duress, during wartime when the United States didn't want any trouble in South America. Ecuador wants an Eastern port from which it can ship down the Amazon.

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Mr. Plaza had suggested to us that if this was accorded to Ecuador, the dispute could be settled. The Acting Foreign Minister, upon whom we called later in the morning, showed us a map and contended that Ecuador now has a port at the headwaters of one of the tributaries of the Amazon, from which it can ship through Peru to the Amazon.

There is also the suggestion that the dispute concerns oil discoveries. The Acting Foreign Minister claims that oil has been found only in territory that is definitely and traditionally Peru's.

In 1956 the United States proposed an aerial survey, in a meeting with other guarantors., but this was rejected.

We were told that the presdent Foreign Minister of Peru, who is now traveling abroad with President Prado, "is obsessed on this subject". We were also told that if the Peruvian government gave in on this, it probably would be knocked out of office by the armed services.

My impressions in conversations at the dinner at Premier Beltran's is that the administration, and even its opponents, are very set and very arbitrary on this question.

The economic consultant to the Premier who was at the dinner was so arbitrary in his insistence on "the facts" that I told him the story of the Thurber cartoon "All he knows are facts". Many think that Peru does not want to settle the question. However, if Mr. Beltran could retain power, which is doubted in many quarters, there seems to be a presumption that Peru might settle.

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The argument is most unfortunate because of the pressure it puts on military budgets of the two countries. President Lopez Mateos in Mexico, when the Governor and I called on him, mentioned this as the number one question that had to be settled before South America could take a lead on disarmament - in line with Governor Stevenson's recommendations.

Khrushchev not long ago chided the Indians and the Chinese about their argument over a border territory in which nobody lived. In most of the territory under dispute between Ecuador and Peru, there are few people. And of course the United States is being criticized because allegedly we "don't enforce the protocol" - "the United States is the most powerful country and it doesn't enforce the real protocol". This refers to the Rio Treaty. This is the position of the Peruvians.

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URUGUAY

Cat. #1706
Memo #72

March 24, 1960

TO: Miss Cronin

From: Senator Benton

This little map is the map that was supposedly the road to the cattle ranch where we were supposed to go tonight - but Mrs. Benton went and I declined. You will see the people we were supposed to meet there in the briefing papers I am sending along.

Here's another little folder given us of stamps prepared for the benefit of President Eisenhower's visit. Seemingly this is a ceremonial of top importance.

The friend of Professor Silvert who sent me the material here, is a very good man, a Socialist and well recommended by our Public Affairs officer here, and perhaps someone should look at this material, possibly notably the little pamphlet included on the revolution in South America.

Our schedule in Uruguay will show why we've had no interviews here - and why there is very little for me to report. This is the smallest country in South America and paradoxically it's the most prosperous, and paradoxically has the highest income per capita though it is in real trouble. The ambassador says it will either have to increase its productivity or reduce its standard of living. A couple of hundred years back one of the Governors in Buenos Aires, so the Ambassador tells us, sent over about 100 horses and cattle to breed - and turned them loose on the lush planes of what is now Uruguay.

Along about the time of our Civil War, they had multiplied to some 25 million. Then the settlers came in and began to "mine them"

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for hides. They were treated as were our herds of western buffalo. The herds are now at a low point of about 8 million. They should be built up to 11 or 12 million, says the Ambassador. About 6,000 ranchers here who own ranches of about 1,000 acres apiece, on the average, are cooperating under a plan by which $7 million has been borrowed (from the World Bank or some other international financial institution). This will be used to put up fences, buy fertilizer, develop seed for alfalfa and other grains, improve the breed of stock, et cetera. Lots of ranchers won't cooperate and up until now there has been very little interest in a program of this kind. The ranchers make plenty of money selling their meat to Europe - and they don't think the extra money is worth the extra effort and trouble - wholly apart from the investment. Many figure by working a lot harder, and investing more money, they might indeed do more business - but the rewards aren't worth it. This attitude is one of the great handicaps.

All of the meat is sold easily, although the United States market is closed because of the hoof and mouth disease which is "endemic". The Ambassador states that this disease doesn't seem to have much adverse effect. We didn't have an agricultural expert at lunch today, a man like Patterson in Buenos Aires, who had told us that the eradication of this disease was one of the best ways to step up Argentinian beef production. Here, Ambassador Woodward more or less shrugged it off.

There is virtually no Point 4 program operating here, no technical assistance program to speak of, and few if any of the activities we've run into elsewhere. The Ambassador agrees that the University has greatly disintegrated, but seemingly it had not occurred to him

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to help revive it. There are about 15,000 students and for some strange reason the Ambassador thinks that those in the School of Architecture are the worst. We saw the great handsome buildings across which were stretched streamers denouncing President Eisenhower during his visit.

As explained in Eddie Roddan's most wonderful summary of Uruguayan history - (I gave mine to Governor Stevenson, and if he doesn't give it back to me to send along, please ask his office for it or a copy of it because Bill Blair sends all papers to his office in Chicago) - much of the business of Uruguay is in the hands of government owned corporations which go back to the first World War. For instance we saw big enormous hotels which are run by the government, and even the profits of their gambling casinos do not offset their deficit. One we saw is open only part of the year, during the summertime, for the Argentinian business. This faces a beautiful broad beach, which rings the harbor of Montevideo, on which we went swimming this morning. The Ambassador commented that it seemed to him that it would make more sense if these hotels were leased into private hands, and the deficit eliminated. There is no leadership here such as Alsogarary, who is seeking to divest the Argentinian government of some of its state owned and operated businesses.

My hunch is that one of the reasons these businesses are badly run, on their financial record, is that they are run by committees, - so reported the Economic Consular of the Embassy. In 1951, fearing dictatorship, spurred by the illustration of Peron, the government here was converted into a setup operated by a council of nine men, consisting of six of the majority party and three of the minority.

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The top four of the majority each take the presidency on successive years. This council completely dominates and supervises the Cabinet. Its deliberations are often dominated - or often devoted to minor and inconsequential matters. For instance, a full week was spent debating whether to send the Uruguayan Symphony Orchestra to France. This fear of centralized authority permeates the Uruguayan economy and political structure.

There are very few Americans here in Uruguay, only 700 in the whole country. 280 of these are religious representatives and more than half of these are Mormons. The young Mormon missionaries learn the language in a hurry and are very effective. I know that a year is compulsory for mission work on the part of every young Mormon. Here I was told that it is eighteen months or two years. My general impression is that the Mormon Church is growing very rapidly all over the world, and this is one of the prime reasons.

One reason the Mormons do well here is that the attitude of the Colorados who ruled the government for 96 years until 1958, has been liberal to the point of being atheistic. The influence of the church here is therefore very slight. Montevideo's paper, El Dia, is openly atheistic. It won't print God with a capital "G". It refuses to call the Pope, the Pope. It refers to him as Signor Roncalli.

The Ambassador says there are perhaps about 75 Americans in business here, who, with their wives and families, would constitute at most a third of the American population. U.S. business investments are only $32 million. The big packing houses, Swift and Armour, turned their plants over to government controlled cooperatives, a couple of years back. The cooperatives took on the liabilities in

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exchange for the plants. Swift and Armour claimed the plants were worth 50 million pesos. They had accumulated debts to the bank of 12 million pesos; they would have owed retirement payments of 16 or 17 million under Uruguayan laws; they had another 12 or 13 million of obligations growing out of their pension fund, etc. The Ambassador reported that these two firms had exerted very unhappy pressure against the over-all conduct of U.S. relations with Uruguay - demanding certain privileges and returns when they liquidated - and pressuring the U.S. government which was asked to alter its policies and dealings with the Uruguayan government - to help bail them out. The Ambassador said that fortunately this trade was worked out, "that both sides feel they got a bargain". Now the Ambassador is suffering from the fact that seven senators and a few congressmen are "pressuring", demanding - making demands on the Uruguayan government via the U.S. Embassy, and through its policies, to help collect $6 or 700,000 which was contracted to southern firms for railroad ties which actually reached the docks of southern ports - but were never shipped because the railroad credits ran out and the order was canceled. The Ambassador commented, "Our policy should be run in the interests of all our people and not for special groups". The Governor remembered that someone had told us that U.S. policy in South America was too much oriented, "to make Latin America safe for American business". The Ambassador agreed.

Overhanding the economy here of course is the tough inflationary pressure. Prices went up 45% in '59, 25% in '58, 20% in '57, 15% in '56 - and the estimates this year are for an increase of between 30% to 50%. The government is attempting to follow the recommendations of

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the World Bank, in combating inflation, and has worked out a good plan on paper but the Economic Counselor, Mr. Landau, is not optimistic about its execution.

The government's economic policy is now geared to a decree of December 17 which put the exchange transactions on a free basis. Bank credit is being clamped down. Mr. Landau commented wryly, "The government has done the right things on paper".

Governor Stevenson asked about the activities of the Soviet Embassy here. The Ambassador told us that there are about 45 to 50 members of the staff. 12 or 14 of these are in the Economics section and operate a special building in which they live. The Russians are buying a lot of Uruguayan wool. They pay in cash in pounds. About one-third of these pounds are sent by the Uruguayans for Soviet petroleum. But the Uruguayans receive credit terms of 270 days. Thus this deal is very advantageous to Uruguay. On a net basis, even more advantageous is their dealing with Red China. They sold $2 million worth of "hops" to China (whatever "hops" are!) - and buy nothing in exchange.

These economic consulars are of course the salesmen for the Soviet Union. One of them has been trying to persuade the distributor here for Minneapolis-Moline - to purchase Russian tractors and farm machinery. This distributor telephoned the Ambassador one day - (the Ambassador was born in Minneapolis and is a graduate of the University of Minnesota - he's been in the foreign service since 1932 and his only previous ambassadorial post was Costa Rica) - to ask him whether he would like to see the proposition he had from the USSR. He gave to the Ambassador the beautifully printed Soviet catalogs,

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but the equipment is obsolete by American standards. The tractors are made in a plant built in 1934 by the International Harvester Co. The interesting part about the Soviet proposal was this. They will match American or English prices, and then let the distributor pay them only 50% of the money while he keeps the other 50% to invest in advertising to promote the sale and distribution of Soviet equipment. (I am reminded of the article I wrote for Sales Management, on my return from the USSR, predicting the future use by the Soviets of Western advertising techniques.) I think this story illustrates the kind of competition American firms are going to be up against as the so-called "economic war" with the Soviet Union intensifies.

What alarms the Ambassador more at present is the way the Soviet Embassy is "flooding the country with cheap books". These are good sound technical books. The Ambassador feels it is greatly to the interest of the United States to get our books into this market, the good ones and notably the technical ones, and at low prices. (See the memorandum I wrote after my talk with Mr. Bennett in Quito.)

The Ambassador had mentioned the funds available under Pl. 480. 50% of these go to the Uruguayan government as counterpart funds for developmental projects which are approved by the U.S. government. 25% under the so-called "Cooley Amendment" (Ambassador Cooley of South Carolina - and these are known as Cooley funds - go on loan to American business "to stimulate trade".) The final 25% are available to the Embassy for salaries and otherwise. (Mr. White, Counselor at the Embassy, told me that millions and millions of dollars are being wasted by government bureaucracy's failure to approve expenditures, and also to approve expenditures legitimately accruing to Fulbright

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funds; the money sits in the bank and depreciates while the men in the field wait for Washington approval; he's even heard that the Bureau of the Budget had ruled that Congress must approve in certain instances; this whole area is not clear and should be looked into by some Senator or some Senate Committee; the Ambassador showed us a big beautiful piece of land fronting the ocean on which the new Chancellery is to be built - with nothing on it but with plans under way.)

I asked why some of these 480 funds could not be given to McGraw-Hill, let us say, for the distribution of American books. The problem here is that the funds seemingly, under agreement with the U.S. government, must be used productively for the Uruguayan economy. Thus I gather that McGraw-Hill could borrow them if it wished - to build a printing plant or to print books - but could not get hold of them to act as a book distributor. General Electric, International Harvester and other big American firms are borrowing these funds and of course in view of the rapid inflationary spiral - they are likely to pay them back at 10¢ on the dollar or even less. I commented that it was unfortunate that the funds seemed to be loaned only to the big American firms and not to smaller enterprises. The answer of course is that the small enterprises aren't operating here. (I think Mr. Minow should find out more about these funds, as well as other funds and other pieces of legislation on which I have been reporting in bits and pieces - and indeed should find out a way to get a full study made on behalf of EBF and at the same time he might as well include the Britannica.)

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The Public Affairs Officer here, Mr. Harold Urist, says that the USIS has made many studies on the distribution of Soviet books throughout the world and that he's sure that Mr. Albert Harkness of the USIS in Washington will give us these studies. Will John Howe please get all the material he can? Incidentally, the USIS must have a lot of material that will be of great interest to us in the preparation of this article. Will John Howe please get hold of it?

On the subject of printed material, the Ambassador says that he thinks the Reader's Digest here, which is called "Selectiones", is the single biggest American influence - with the exception of our movies. He says that the Reader's Digest in many homes is "like a Bible". He estimates its circulation at 50,000.

The Uruguayans, we are told, are far more sports conscious than the Americans. Eighty-six thousand play basketball here. Baseball was established by the Mormons. We went to the big soccer game today, between the two top teams of the league - the Penroles and the Nationals. The Ambassador sat next to me and told me that everybody in the country has loyalties to one or the other of these two teams. They play three times during the season and this fills the bowl to the brim with 50,000 people. A very large part of their games are with foreign teams and in 1924 one of these teams won the world's championship. The Russians were here last year. Of course the big thing about the football game was the tremendous ovation given Governor Stevenson. The teams themselves, when they crowded on the field, hardly received a bigger one. When we entered, the bowl was jammed and the clapping began from the few people who were nearby and were able to recognize the Governor. Then the clapping spread.

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Finally it engulfed the entire bowl - also with cheers and whistling. This was repeated even with greater emphasis subsequently when the loud speaker announced that Governor Stevenson was on hand and when everybody could identify the cause.

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The headlines this morning report the trouble in Bolivia. This caused the Governor to report a conversation with Interior Minister Alfredo Vitolo in the Argentine. The Minister told him that he thought that Bolivia would be a source of Communist danger that might match or exceed Cuba. The Minister, who is in charge of Argentina's security police, is genuinely alarmed. Seemingly the threat of communism here in Latin America is going to get far more attention - and most certainly the article I've prepared is not exaggerated.

The Ambassador congratulated our government for resisting the pressures under which it must have operated during the Cuban crisis - the pressures from American business whose property has been expropriated.

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On our second night in Montevideo, at the buffet supper given by Ambassador Woodward, I had a chance to visit privately and at great length with the British Ambassador, Mr. Henderson, who was at Aspen with me for ten days at the Great Books classes. Mr. Henderson married Walter Paepcke's niece, Paula. He gave me a good phrase which we could even use in the opening paragraph of my article for the Yearbook. He said, "The world is pushing in on Latin America".

The British are predominant here. There was a big British community which has shrunk greatly. The British own the utilities

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which have been taken over by the Uruguayans, except gas. The British need products which the Uruguayans export - such as wool and meat - and must sell its products to Uruguay in order to purchase these products.

He feels that the new government is trying hard to do the right thing and he hopes it will succeed. Of course he says it's amazing how well the country does in view of the general inefficiency of its management. He describes the Uruguayans as stubborn and determined - but they are individualists and in general on the right side. They just can't believe that the communist threat amounts to anything. Thus they have no intelligence service. They don't try to get reports on the communists. A key police officer, in a district outside of Montevideo with which the Ambassador is familiar, has a few drinks with Communist agents and tells them everything - not because he's a communist but just because he likes to be important and likes to show how much he knows. The Ambassador does not think that the communist threat in Uruguay at present amounts to much, but he thinks it is exceedingly important and very ominous that the communists use their base here for penetration into Brazil and otherwise - but it is impossible to persuade the Uruguayans of this. He says that from here the Soviet embassy people have free access to Brazil, and it is in Brazil that they are concentrating their efforts. He points out that this small country of three million is the size of England - and with no serious problems such as Brazil's great Negro population, or a tough Indian population such as in Bolivia or Peru - and that there isn't any reason why with the simplest kind of good management - it can't be exceedingly prosperous, and wholly free of communism.

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On the whole, he's more optimistic than the group of U.S. embassy officers with whom we lunched. He hopes that British capital will come into the country and British interests will be revived and strengthened.

He told me a most amusing anecdote which bears on the "committee management" of the government monopolies - and their general inefficiency - and the Uruguayan citizens' view of their inefficiency. (He says that when a sailor in a tough quarter of the city picks up a prostitute and takes her to a house, he gives two pesos to the girl and three pesos to the madam. This is the standard price. When the Uruguayans feel that they are being gypped by the electricity company, or on the price of oil, they say to each other, "It's another three and two".) (This of course refers to the fact that on the governing political committees there are three members of the majority party and two members of the minority - a system which was frozen into the economy in 1951, as I understand it.)

Ambassador Henderson has been here for two and a half years and feels it's a big step upward in his service from Luxembourg, where he served before. He feels he's in the frontier for the British economic fight for survival.

Ambassador Henderson said that there are 70 to 80 in the staff of the Soviet Embassy here - that the estimate of 45 to 50 given us at lunch today did not include the chauffeurs and other servants - who are often very important in espionage. (I've heard of cases where the chauffeurs and doormen were the real bosses!)

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Driving around Montevideo this morning with Ambassador Woodward, he pointed to big apartment houses which are being built by the Vatican. I remarked that it seemed strange to me that the Vatican was making that kind of a financial investment in Montevideo. And I do think it is very strange. And this is an observation that might warrant considerable explanation - but not by me because I don't think it's particularly relevant to the subject of my article.

He said that two room efficiency apartments with little verandas, facing the ocean could be bought for as little as $10,000. This does not seem to me a very cheap price. Indeed, it seems to me very expensive. We passed a great half-built apartment house, and he said that this was being completed as fast as the partments in it were sold on a cooperative basis. About half of them had been sold and the apartment house was about half built. I said to the Governor that this reminded me of the subscription book business in its early days - sell one book and get enough money on subscription to pay for the next book, etc. The Ambassador said that the new government was cutting back on this kind of credit - and most certainly I should think it would because it sounds like the kind of credit that speeds up inflation.

P.S.

Mr. White later corrected the Ambassador's estimate on the cost of an apartment in the beautiful new buildings facing the ocean; he says one can be bought for $7,500 and this is not a two room apartment but a two bedroom apartment - a total of four rooms.

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URUGUAY

Cat. #1705
Memo #71

3/20/60

MEMORANDUM ON CHAT WITH MR. COCHRAN,
WHO HEADQUARTERS IN MEXICO CITY AND COVERS SOUTH AMERICA
FOR ERIC JOHNSTON AND THE MOTION PICTURE ASSOCIATION

In terms of the motion picture industry, Mr. Cochran explained to me the problem that inflation poses for many American business men in Brazil and some other Latin American countries.

Eight years ago his ten companies, the members of MPA, did a business in Brazil of about $18,000,000. Their net profit in New York was $12,000,000. Last year they did twice as big a business in Cruzeiros - but had only $7,000,000 net profit left in New York. The cruzeiro decreased in value by something like 90 percent. Thus double the business in crezeiros actually involves a shrinkage in dollars of some 40 percent. Now I realize that these figures do not add up. On the basis of the figures he gave me, there wouldn't be $7,000,000 in gross business. The two certain figures seem to be that the cruzeiro business has doubled and the net profits have gone off 5/12ths. The drop in profits comes from the fact that it is impossible to push prices up at the theatres as fast as the cruzeiro depreciates.

The inflation in Brazil continues. Seemingly it would pay us, in producing our new Portuguese set, to move ahead as fast as we can and spend all the cruzeiros we can as rapidly as we can, borrowing them to the maximum extent possible, because the odds are we will be paying back the money some years hence in much cheaper currency. No one seems to have any ideas on how to stop the Brazilian inflation, least of all President Kubitschek who doesn't seem to be trying.

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P.S. This story belongs with the report I dictated last night on Colgate-Palmolive-Peet in Uruguay - and Mr. Lewin's determination to leave Uruguay and move to the West Indies!

cc: Mr. H. E. Houghton
Mr. R. A. Conger
Mr. John Rhodes

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VENEZUELA

Cat. #1728
Memo #89

4/7/60

MISCELLANEOUS COMMENTS PICKED UP DURING

THREE DAYS IN CARACAS(APRIL 1 THROUGH APRIL 4, 1960)

I was told that the four most powerful men in Caracas are President Betancourt; Secretary of Treasury Dr. Jose Antonio MAYOBRE Cova; Minister of Mines Dr. Juan Pablo PEREZ Alfonso; and Perez Guerrero, in charge of Planning. We spent a great deal of time with Perez Guerrero, a 45 year old bachelor with a thin face and a big stomach, and I think the smartest talking and brightest appearing man we've met in South America. He had a great advantage with us because his English was so good; so too were his phrases. I'm sorry I did not have a chance to take detailed notes on his conversation at dinner and elsewhere. As to Cuba, he said brilliantly, "Cuba is a process which will complete itself". This would seem to be justification for current United States policy, at least to me. And I rather think we have no choice. We must be patient and wait. We must wait for the process to complete itself. Will Castro indeed commit suicide or be assassinated as so many leaders here suggest?

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A popular toast in Venezuela, with long roots in folklore, is "To your health and wealth - and to a new pair of shoes - and a sweetheart to boot".

(The landless peasants don't have shoes and seem to want them even before Sweethearts! Yes, the sweetheart is definitely last.)

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Bullfighters get fabulous prices in Venzuela. The bull ring seats 18,000 people. Seats sell for $30, $40, and $50. A fighter is paid as much as $25,000 for an afternoon.

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The press in Venzuela was described to me as "a lightheaded press". For example, it indicated that all is well with Latin American relations with the United States "because of the enthusiastic crowds greeting Ike". Thus the press is said stupidly to imply that everything is for the best in the best of all possible worlds.

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We were told that the Latin American countries specialize in diversity, and are proud of it. As an illustration, we were given Ecuador and Peru - which, we were told, have no remote desire to settle their border dispute - or to unify - but seem to batten on mutual hatred.

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Mrs. Virginia Perez, only child of President Betancourt, acted as our guide to the city. She is a sociologist who studied at the University of Chicago. Her husband also studied at the University as a political scientist. He is now serving as a full-time professor in Caracas. The two of them have a research project for which they are seeking minor financing. They want to study "the image of the American in Venzuela to the Venzuelan and the image of the Venzuelan to the American". They cannot get funds. Mrs. Perez says there is no source in all Venezuela - among all of Venezuela's rich oil millionaires - for private funds for such research.

A brilliant, attractive and good looking girl in her middle-twenties, she took the Governor and me to the slum areas. The disparity in living standards is very great in Venezuela as elsewhere throughout Latin America. Some 250,000 people in this city of 1,200,000 live in slum areas. With us was a most unpopular man,

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Mr. Catala, the special representative of the President to liquidate the so-called Emergency Plan for taking care of the unemployed. Governor Stevenson laughingly called him "the man who had cut down the Christmas tree". Under the provisional government which preceded Betancourt, some $10 million a month was being given away to the unemployed, and this program is now being liquidated. Seemingly the program helped former President Larranzabal poll more votes in Caracas than did Betancourt. This was the only major area Betancourt lost.

This giveaway program attracted an extra 32,000 people into the city of Caracas. Half of these or 16,000 have now returned to the country. Mr. Catala is trying to decentralize - and to send the rest back. Among other reasons is the fact there isn't enough water in Caracas! In the luxury hotels are signs asking guests to use showers instead of bathtubs; indeed the stoppers have been removed from the bathtubs.

The slums are not as degraded as those in Lima and Bogota. Indeed many of the one and two room buildings are of concrete or brick and are painted and rather well kept up. Mr. Catala told us that if we flew over Caracas in an airplane, we would see "the rim of misery" which surrounds the city - the rim of the slums. Right now every effort is being made to keep people from establishing "squatters' rights" on key property which surrounds the city. These slums have electricity but no water or sanitation. The electric companies in Caracas, and I gather there are two of them, are privately owned.

Mr. Catala thinks that the 300,000 people (his estimate) in these slum areas do not respond to Communism as do the students and intellectuals. They won't go on the streets to riot.

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Mr. Catala thinks that the unemployed, which have been featured at 250,000, are no more than 150,000. Recently the labor leaders of the building trade said there were 30,000 of their workers unemployed in Caracas but a census just completed shows that there are only 10,000.

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The life expectancy in Venzuela, says Mrs. Perez, has gone up in recent years from age 26 to age 56. Malaria has been brought under control.

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We passed a huge library built for the University but, according to Mrs. Perez, "It has no books". Mrs. Perez says that the University is badly disjointed. She told us of one area, pharmacy, where there are five professors and only 23 students. She complained about the part-time professors.

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Mr. Catala told us of the heavy corruption under the Perez Jimenez dictatorship. In the construction of public buildings, he said that 15% or 20% of the price "came off at once" as money to be paid to the politicians. But he added, "There are many ways of stealing". Through sub-contracts and otherwise he figures that the total thefts on these contracts ran up to 40%.

Right now he would like to give direct governmental credits to the construction industry so that they can absorb the unemployed. He prefers this to a government program of building which would in turn develop a new bureaucracy. He is seeking methods to eliminate the stealing. He wants competitive bidding from contractors on all

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new projects - rather than negotiated contracts which costs the former government an extra 30% to 40%!.

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We passed a very big and beautiful new building and I said to Mrs. Perez, "Is this the University?" She replied, "It's the Ministry of Defense - what else?"

Later we visited a most fabulous housing, real estate and club development. It is the officers club and is devoted wholly to them. It has a great mile-long esplanade for parades. It is studded with enormous arches, swimming pools, and ornamental ponds. Most spectacular is the gigantic club house itself. All this was built by Perez Jiminez for the officers of the army. The cost must have run into tens of millions. Seemingly it did not keep them loyal.

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Politics in Venezuela seems much less divided on ideology and issues - than it is on personalities. The leaders seem to be struggling for jobs and privileges and political leadership. I had lunch at the Ambassador's at a small table with the leaders of the three leading parties (or of three of the four). At the end of the luncheon I asked them on what points they disagreed. This really broke up the luncheon. Mr. Calders, head of the Christian Democratic Party, gave me one specific point. He said, "The other two parties will take Communist support and I won't." These three parties have some kind of present deal under which they divide the jobs among themselves.

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Mr. Perez Guerrero said that one of the most important things to understand is the complexity of relations with the United States. This caused the Governor to ask about basic causes of anti-Americanism. These were summarized by Dr. Perez Guerrero:

1) The conciliation of dictators.

2) The problem of commodity price stabilization. (The U.S. is the country which favors free enterprise, and thus we represent the free market and we are the symbol of what's wrong when commodity prices are low.)

3) Credits - ideally loans should go from government to government and right now should go to many Latin American governments. The United States is much too interested in loans to areas where there are Communist threats, and not enough interested in Latin America.

4) All the many psychological factors. (I happen to think that these are of tremendous importance, but little recognized and little discussed.)

Mr. Perez Guerrero thinks that the feeling against the United States is superficial, that it's exaggerated; that it can be fixed rather easily. He recommends much more attention to the exchange of people; much more emphasis on the building up of Latin America's educational institutions, notably its universities! He urges more exchange of professors; more effort to stabilize commodity prices (which the Governor points out is not within our own power); plus more credits.

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Virginia Perez and her father, President Betancourt, think that the attacks on Nixon were against him personally - and not merely against him as a symbol of the United States. We were told that his attacks of Helen Gahagan Douglas, in his first campaign in California, were widely known and understood. We were also told that his friendliness to Senator McCarthy had been widely publicized and was deeply understood. Mrs. Perez concluded, "I can't positively say that the attack was a personal one aimed only at Nixon, but it is a great oversimplification to say that it wasn't". Mr. Harner, our U.S.I.A. chief in Caracas, told me that he is persuaded that the plot was to assassinate Nixon, and that this went wrong because the attack on him was triggered too soon.

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Virginia Perez pointed out the friendliness in the word "negro". With her, in the house in which Bolivar was born, we saw the large murals featuring Bolivar's Negro nurse. Virginia says that her mother calls her father "negro" as a term of affection. Her father calls her mother "negra". Both of them call her "negrita". These are family terms of affection.

In a large mural on the ceiling in the capital building in Caracas is a painting of one of Bolivar's great battles. There is a Negro dying. He is famous in Venezuela as "primero". Seemingly he is not known by name to anyone.

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After the luncheon at the Ambassador's, Governor Stevenson and I met with the directors of the U.S. Chamber of Commerce of Caracas. The President was John Gallagher, the head of Sears Roebuck in

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Venezuela; he has just been made vice president of Sears Roebuck in Chicago in charge of all Sears' Latin American operations. He did most of the talking. He explained that the church is weak in Venezuela; that it would be helpful to develop a cathedral; that the church is a bulwark against communism and that the Catholic church should be encouraged and developed. The Chamber has had "conversations with Cardinal Spellman" and with a monsignor in Caracas. The Regional Archbishop is in Caracas. Alll this seemed very strange to me, even coming from a man named Gallagher, and it's the first time I've run into such an objective by an American Chamber of Commerce - yes, a prime purpose of the American Chamber in Caracas is to build up the Catholic church. The Chamber as a group can hardly be interested in religion. It's against communism.

Further, the Chamber wants to develop and build up the YMCA. This will bring sports directors into Caracas.

The Chamber has a program of friendship emphasizing the teaching of Spanish. It promotes a ladies' group which works in the hospitals.

It has a $250,000 budget on the foregoing projects - and others which I didn't catch.

Mr. Gallagher explained that Venezuelan students going to the States were not being sufficiently exposed to our country. They come back to Venezuela without sympathy and understanding of the United States. The speaker suggested that he was opposed to International Houses" or other devices which keep Venezuelan students from full and intimate exposure to United States families and the American environment. He said that a part of the problem is to orient the

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Venezuelan students more constructively before they leave Venezuela. Then he said the second problem is to keep in constant touch with them while they are in the United States.

In response to a question from me, Mr. Gallagher and the other 15 or 20 men in the group agreed that we need a much more aggressive USIS program. More broadcasts. Much more emphasis in teaching the illiterate how to read and write. Mr. Gallagher, as President of the Chamber, said, "The communists send people into the hills at one end of the spectrum, to work with the illiterate farmers, and into the universities at the other". He spoke of the extraordinary propaganda barrage by the communists in Caracas. He referred to advertising signs throughout Caracas, "Attend the classes offered you by the Marxist system - the free classes". He explained that young Venezuelans do not think of free enterprise in the terms in which we understand it. He emphasized that we need spokesmen in Venezuela for free enterprise. He stressed that we need better organization, bigger budgets and better leadership in the USIS. We need professionals here "organized for the job".

Mr. Gallagher concluded by emphasizing that the second constitutional government - in Venezuela's entire history - is now in office. Manifestly he thinks it should be a major aim of our diplomatic and propaganda policies to help create a climate in Venezuela which will help establish constitutional governments over the decades ahead.

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VENEZUELA

Cat. #1727
Memo #88

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INTERVIEW WITH FOREIGN MINISTER ARCAYA OF VENEZUELA

(in his office by Governor Stevenson and Senator Benton)
(Dr. Arcaya was former President of the URD party)

The Governor opened the interview by asking the Foreign Minister what was wrong in the way the United States was handling its relations with Latin America. The Minister replied, "You always talk of the empire of private enterprise". He explained that the common people of Venezuela and Latin America don't trust American business. Further, they don't like it. The Foreign Minister lived in exile on the upper west side of New York for five years during the Perez Jimenez dictatorship. He told us that in the United States, we are "proud of our rich men". Indeed, he said, "Your millionaires are your most popular men". But he then explained, "Here in Latin America, rich men are suspect; we think that private enterprise is a scheme to protect the rich".

The Foreign Minister emphasized that when Latin America wants technical assistance, the United States always seeks to promote investment in private enterprise. He stressed that the U.S. always talks about private enterprise when South America may want assistance for government projects. He repeated with emphasis, "This point is very important". He commented that "Eisenhower's speeches are those of a traveling salesman for American business". He explained with gestures that President Eisenhower told the congregated Ambassadors in Rio that he had met them in Panama in '56 - but that in reality those he'd met in Panama were the dictators and their representatives. This is how mistaken and misinformed President Eisenhower was.

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The Minister then stressed a point which had been made to us previously - that Latin American businessmen are very different from those in the United States. The latter, he said, "Have traditions of public service - they have set up philanthropic foundations". He used a most interesting phrase. He said that our businessmen have developed a "sense of trust", of public responsibility. Then he emphasized, "This is unknown in Latin America".

Further to illustrate his point, the Minister told us of the town where President Betancourt was born. This has three or four rich families, but the town has no roads, no schools. The families are wholly indifferent to these needs.

This difference in attitude "is a major point which must be understood to comprehend misunderstandings between the United States and Latin America". The Minister commented that Marxism is obsolete in the United States but by no means obsolete in Latin America.

The Minister has wit. He laughingly told us that a Marxist had recently written a book saying that the American businessman's "sense of trust" - was "a diabolical invention of capitalism". He explained that the good Marxist must always find an economic justification for anything!

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The Minister told us how he "sat for 40 days in Panama," as an exile from Venezuela, waiting for a visa to permit him to enter the United States. He could not get one. Finally, he wired Secretary Dulles asking for fair play. Almost immediately he had his visa.

He spoke warmly of Secretary Rubottom as a good social friend, and an honest man. But he says that the Secretary is "backward" - he doesn't understand.

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The Minister felt he was paying his highest possible compliment to the United States when he told us, "If I were to be born again, I would like to be born in the United States".

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The most interesting part of our conversation related to Cuba. (Governor Stevenson had said to me as we left for the meeting that this was the area to stress.) The Minister is positive that Castro is not a communist. Further he is sure that his regime is not communistic. He surprised me by stating flatly that the communist party is weak in Cuba - that indeed it is much stronger in Venezuela. The Minister said, "The Foreign Minister of Cuba is anti-communist like President Betancourt".

The Minister gave us quite a speech about the Cuban people. They are proud. They are "poor bargainers". They are "childish". They are "full of Spanish pride, like gods descended from the clouds". The Cubans, says the Minister, are different people from other South American countries. They were the last to have been freed from Spain. Venezuela, Costa Rica, Colombia - these have a common denominator - but are very different from Cuba. Because Cuba was her last colony, Spain sent her best people there. Thus Cuba is "more Spanish". It is "more proud". In a personal concept and sense - it is really Spanish. It has a strong sense of nationalism. Interestingly enough, says the Minister, the best workers in all Latin America are Cubans.

Every Cuban believes that Castro is "the living story of David fighting Goliath". As to Raul, his brother, he's no communist either. The Minister told us how Raul had instructed a young lad not to make a communist sign. As to the Argentinian Che Guevara, president of

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the bank, the Minister told us how important businessmen visited his office, carrying communist books in an effort to curry favor. Guevara asked them why they brought them along and laid them down so ostentatiously. He assured the businessmen that he never read such books!

With such anecdotes, the Minister bolsters his case that the top Cubans are not communists. He bitterly resents the attacks on Cuba in the United States press, which he deems to be wholly unfair. He fears that similar attacks are about to be launched on Venezuela. He told us of a story recently published in the Wall Street Journal saying that Venezuela is going Socialist. He fears that this is the beginning. The Minister emphasized the "fantastic campaign of propaganda against Castro" by the AP and the UP. He blames the United States and its propaganda for the current threat in Cuba against our Naval Base. He says that our own propaganda gave this issue to the Cuban communists. They grabbed it. But the Minister is not at all concerned about the threat. He thinks we can forget it.

The Minister goes so far as to suggest that Cuba "has been Venezuela's salvation". Otherwise, he says, the U.S. propaganda would have been aimed at Betancourt and Venezuela. It is Venezuela which would have been called communist instead of Cuba.

We asked the Minister why Castro had suddenly rejected the Rio treaty. To our astonishment, he said that he thinks Castro was confused about this and really meant to denounce the Caracas declaration. He doesn't feel that Castro intended to denounce the Rio treaty at all. He quoted Guevara on his recent visit to Yugoslavia. Guevara was asked how Cuba would line up if there was a war between the United States and the Soviet Union. Guevara replied that Cuba would of course support the United States because of the Rio Treaty.

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I asked the Minister about Janio Quadros' current visit to Cuba. He shrugs Quadros off as an erratic political leader. The Minister says that Quadros appears before crowds on speaking engagements and starts off, "Please excuse me, please know how busy I am. I am very harried and I'm very tired. I haven't eaten the whole day. Please excuse me if I eat a small sandwich while I talk". He then pulls the sandwich out of his pocket.

The Minister described Quadros as "really crazy". He called him, "a rainmaker". He further suggested that he was corrupt. By contrast, the Minister tells us that Castro is only "half-crazy".

And on Castro's attitude toward Communism, the Minister concludes, "Some morning you may pick up the paper and find that Castro has lined up all the top Communists against a wall and has assassinated them". This is indeed a most revealing comment - more revealing about Castro than it is about his attitude towards Communism!

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Speaking up for Venezuela, the Minister assured us that in Venezuela there is "no racial or other social discrimination". As to the bitter warfare which since 1948 has been waged between Liberals and Conservatives in Colombia, the Minister told us that the difference between the two parties used to be summarized in a phrase, "the Liberals go to Mass at six in the morning and the Conservatives at eleven".

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